BUSINESS AND ECONOMICS

★ HOW ARTIFICIAL DEMAND DISTORTS MARKET ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

JULY 2, 1960 85 CENTS

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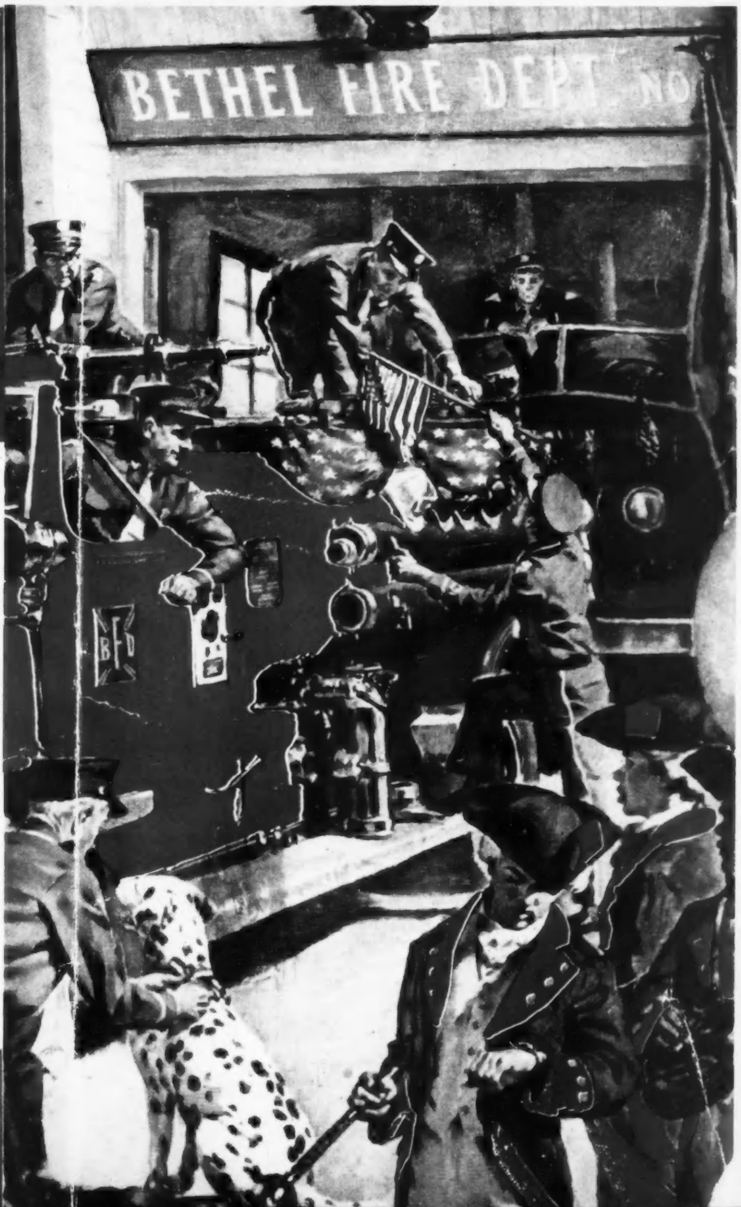

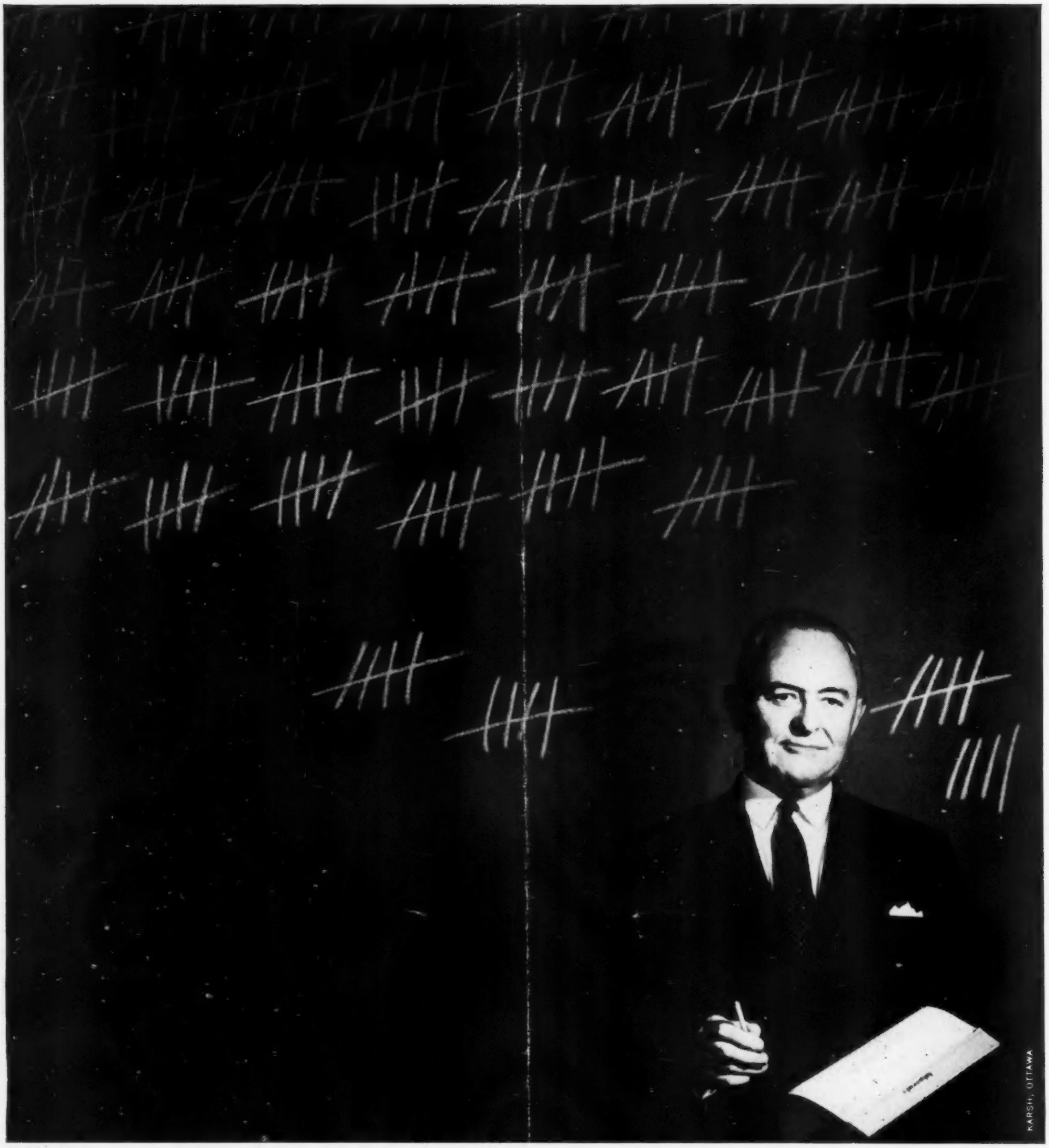
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Cover: Town prepares for traditional celebration of Independence Day. Art work—Courtesy of Cities Service Co.

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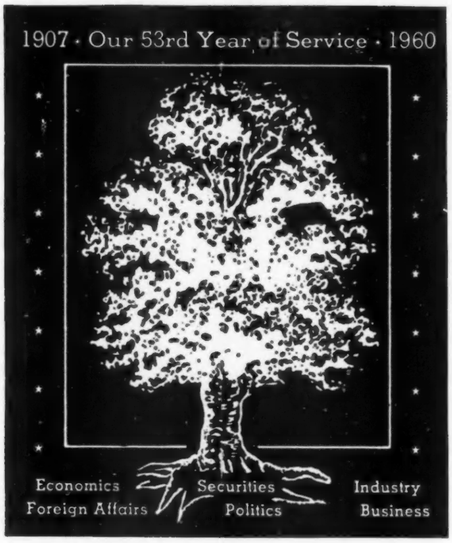
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

OUR COUNTRY . . . This year Fourth of July has a special meaning for us, and in every city, town and hamlet in this country there will be celebrations of the freedoms we won in 1776, for the spirit of liberty across the nation is alive in every heart.

But it isn't enough to celebrate the glorious past. In this year of 1960 there is a great need to rededicate ourselves to the preservation of our precious freedoms — not by glib words but by action in a spirit imbued with the will to remain free and unconquerable.

Only in this way can we realize the sacred institutions that made this country great—and show the rest of the world that we can translate our purpose into action. This democracy in practice will insure the inalienable rights to life, liberty and the pursuit of happiness for the downtrodden peoples now enslaved behind the Iron Curtains of the Soviet Union and Red China — and give confidence of a better life to those nations now taking the first steps in democracy.

We have not always set a good example to the rest of the world, and it is this that has made it possible for our enemies to distort our character, our aims, and to humiliate us before the people of other countries.

We can only counteract such slander and defamation by maintaining high standards of integrity and justice in dealing with other peoples on all levels, diplomatically, commercially, and as tourists when we travel abroad — where we have the opportunity in our contacts with the various people to correct the misconceptions and impressions that the world has about us. And build goodwill.

This particular Fourth of July is a time for stocktaking of our strength and weakness as a people, to see in what areas we measure up to or fall down on the concepts of our PURPOSE IN DEMOCRACY. Such honest self-appraisal would help us considerably to correct the errors we are making, so largely responsible for our problems. And a campaign of self-examination would produce the kind of leadership in every part of the country that would be inspired to take hold and push the good cause for a better America — for liberty without license — greater honesty among politicians, and in other walks of life. And from this beginning build up an impregnable United States—one that the world at large will respect.

We call the attention to the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 53rd Year of Service"* — 1960

Security Treaty Ratification Documents Exchanged in Tokyo

SO THE JAPANESE—U.S. MUTUAL SECURITY AGREEMENT WAS SIGNED AFTER ALL . . . It is a great pity that the light-weights put such stock in the student riots and failed to give proper recognition to the treaty itself, and to Prime Minister Kishi, who, at the risk of his life and political future, refused to be bombarded into abandoning the Pact, which was so advantageous to his country compared with the previous treaty made at the close of the war. A real patriot.

Now the victory has been won. And with his task over, Prime Minister Kishi is keeping his hand on the helm to insure a free election, where the majority is bound to maintain in office the party that has served the country so well these last ten years in establishing Democracy and building prosperity for the entire nation. A task of herculean dimensions that could only have been accomplished by keen, dedicated minds and hard working people.

The real story of the inner core of Japanese Communism, which makes it different from the apparatus existing in the other new Asiatic free nations, is clearly told in the story in this issue on Japan, "U.S. Stake in Japan — as a Free Nation — an Important Customer — and Business Partner".

After what happened in Tokyo, and the reprehensible and dastardly campaign in Peking — the scornful press in Moscow — it is clear that the Reds were determined to make President Eisenhower's visit the main issue, instead of what it was — a secondary one. And it was fear of endangering Ike's life that caused Prime Minister Kishi to postpone the President's visit to Japan.

The screaming abuse that continues to emanate from Red China tells a story of frustration and failure to accomplish their purpose in Japan, despite the huge sums they spent there. By their undignified and "crude" actions, the Communists are now out in the open as organized gangsters that are a blight on the decencies of the civilized world.

They have made it clear that they are ready to use their organized gangs to interfere in the ordinary affairs of other countries, not even stopping at murder. Undoubtedly Kishi knew that professional assassins and hatchet men were sure to be planted among the rioters if Ike came to Tokyo, and naturally he was concerned for the President's safety.

Now that the treaty has been signed, we must expect some time will elapse before reason asserts itself. Whether this will result in second thoughts on the part of the various weak nations regarding Russia and Red China, and draw them closer to the West for protection, or whether they will be just frightened into neutralism remains to be seen.

But, in any event, it is now clear to all that the Communists are dedicated to the destruction of Democracy wherever it exists. What happened in Tokyo serves as a warning for all who would see, and definitely calls on the various governments to tighten their security regulations regarding the Communist cells which are being organized for a frontal attack on the powers that be, just as they were in Japan.

In every country where they have established beachheads the Reds have concentrated their revolts through student bodies and labor unions, and in each case the country has became a dictatorship and the people have lost their freedom.

That this is the avowed intention of Communism has been made plain again and again. And regardless of what Mr. Khrushchev says about it, both the Soviet Union and Red China are united in their aim to destroy Democracy.

We can never let down our guard, because any statements made about "different interpretations of the Marxist theory" must be taken wih a grain of salt,—especially when they are made by Mr. Khrushchev today, who we can expect will seek to move heaven and earth to find ways and means of attaining the goals of the 7-year plan which is now faltering badly. There can always be an about-face for anything he says when it suits his purpose — as we well know.

We just can't trust the Communists, and must act on this truth when dealing with them. END

As I See It!

By Jack Bame

WHY THE GERMAN MARK IS TOO STRONG FOR COMFORT

. . . IS UP-VALUATION IMMINENT? . . . WHAT EFFECT ON THE DOLLAR?

WIDESPREAD rumors concerning an upvaluation of West Germany's currency, the Mark, have traveled the international financial circuit for the past few weeks. Official denials have been issued by Bonn—but this came *after* Dr. Ludwig Erhard, Vice Chancellor and Economics Minister, had initially admitted, for the first time, that a revaluation—increasing the value of the Mark, in terms of other currencies—might be considered.

At the time this was written, capital was still flowing into Germany, causing gross reserves of the Central Bank to rise to a record level of about \$6¼ billion. The forward rate, or quotation at which Marks, specified for future delivery are contracted for, was at about a 1½% premium on the annual basis. Despite the fact that the latter was very modest, compared with 15% in 1957 speculations — German authorities are apprehensive, although no real speculative movement is now evident.

The recent rise in the German discount rate from 4% to 5%, together with the ban on sales of German Treasury bills to non-residents and the prohibition of interest payments on foreign time deposits, should theoretically have weakened the Mark and helped to halt the money inflow. But such has not been the case.

Why has this situation arisen? What are its implications? What is likely to be done, if anything, in the immediate future? Can the internal-external conflict of monetary policy be solved?

1) **Germany's surplus of exports over imports** has increased so far this year, running at an annual rate of over \$1¼ billion.

● ***As long as domestic price rises are held in check, this surplus will persist, as Germany can then continue to be a relatively low price supplier to world markets.***

West German Minister of Economics Ludwig Erhard regularly stops by Bonn's market place to check current supplies and prices first-hand on his way to his office.

Import regulations have already been eased to help hold down the export surplus, except foreign agricultural products. And German domestic politics make a move in that direction extremely unlikely during a year before new elections are scheduled.

2) ***Higher interest rates in Germany, contrasted with lower U.S. rates, have led to a reverse movement of funds back to Frankfurt.***

The rise of the British Bank rate to 6% will attract and divert some of the foreign funds which would have added even more to growing German reserves. However, German banks have been recalling their short-term money invested abroad in view of their tight money market at home.

3) ***Fixed interest yields of 7% and more in Germany, and 9% interest being paid for some credit there, will—indirectly or otherwise—attract some foreign funds for long-term investments.***

While Bonn authorities have raised interest rates and upped bank reserve requirements in response to the domestic inflation threat—(industrial production was up over 15% in the first four months of 1960)—the inflow of funds is nevertheless tending to increase liquidity.

4) ***No large scale speculative foreign exchange movements have yet been noticed.*** The rather unprofitable results of 1957 operations by international speculators have served as a painful inhibitor in this respect.

5) It is ***not*** likely that the Mark will be increased in value, although this would theoretically make German exports more expensive for overseas buyers and cheapen imports for Germans, thus reducing the trade surplus. Such *(Please turn to page 444)*

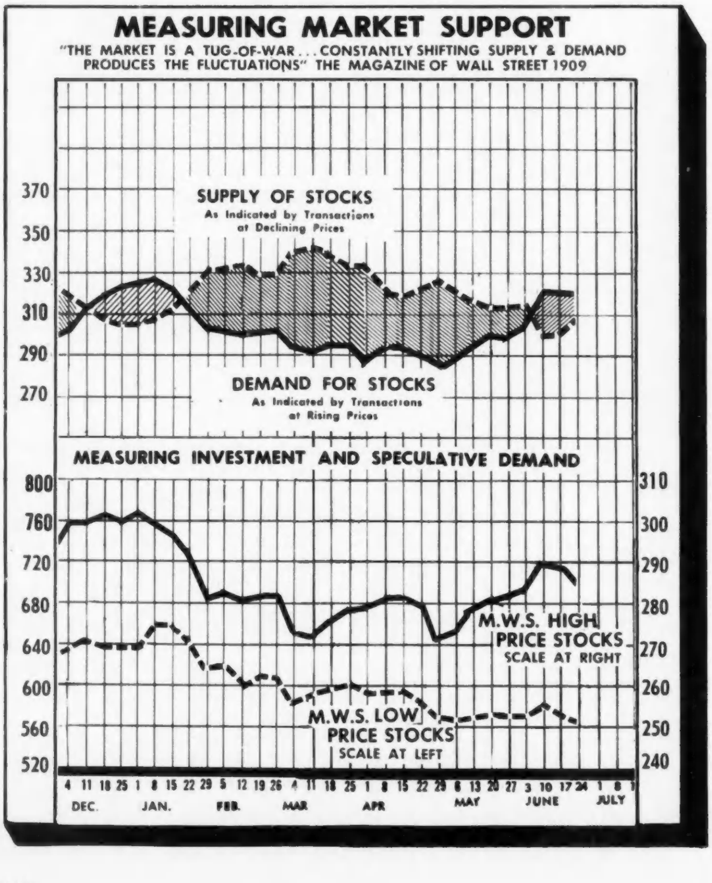
How Artificial Demand Distorts Market

The sharp advance in secondary stocks having a limited floating supply on the one hand, with urgent short covering due to wide advances on the other, and accompanied by a decline in seasoned equities — plainly identified this as a market of traders operating for a turn — while investment interests remain on the sidelines. This is further substantiated by the over-enthusiastic price appreciation of little-known electronics stocks — while many good quality issues, having better prospects and in a much better earnings position, slipped to new lows.

Altogether, *the market is without any definite trend at the moment,* and seems to be waiting to see who is going to be nominated — the economic philosophies of the candidates and platforms — and what'sahead for the third quarter, with evidence already in of seasonal slackening in several basic industries.

By A. T. MILLER

The wide gyrations in a dozen or more so-called glamour stocks, some selling as high as 100 times earnings, testifies to the increase in gambling —and speculative activity—in little-known equities that lure the general public into assuming high risks in the hope of "making a fast buck." Nearly always these stocks have a small floating supply, so that demand has a disproportionate effect on price.



Such stocks have risen sharply to new highs without regard to earnings or dividend prospects — chiefly because professionals have purchased these issues in the hope of selling to others venturesome enough to try for profits in "fast moving" equities.

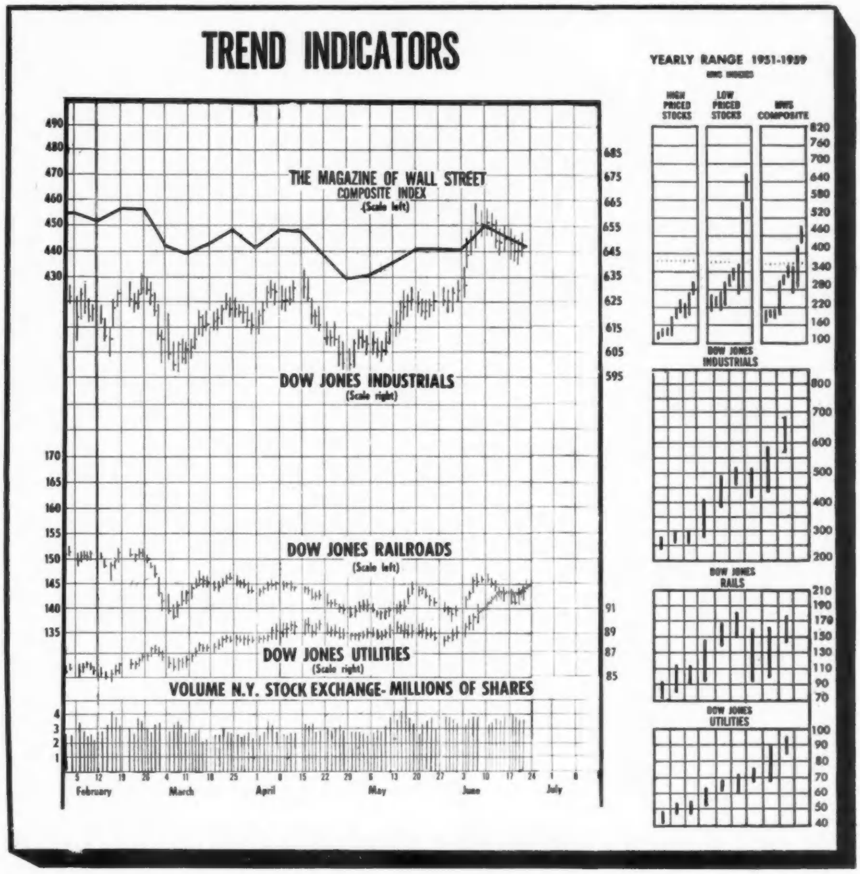
Before citing a few individual examples of "high-flying" trading specialties which have caught the public fancy, along with a few specific laggards that have drifted out of favor, it may be well to provide some observations for background and to stress the fact that the trading maneuvers to which attention is being called are rooted in practice legitimately. But regulatory authorities are closely watching financial markets for evidence of skulduggery in this kind of market, and would be swift to act if any wrongdoing should be detected. Let us quote a few examples to illustrate the character of this speculative activity.

Some Reasons Behind Rocketing Prices

Shares of Underwood Corporation have risen from below 25 to above 48 notwithstanding continuance of unprofitable operations. No earnings of consequence have been reported since 1952, averaging less than $1.50 a share in the three following years, followed by a deficit of $10.91 in 1956, 80¢ in 1957, $9.35 in 1958 and a loss of $14.30 in 1959.

Floating supply has been reduced, however, by a purchase in behalf of the Olivetti interests in Italy. Under an arrangement currently being finalized, the Italian Olivetti company would obtain about a 69 per cent holding. Meantime, bearish traders sold short in such numbers that the total short position at mid-June reached 42,085 shares, compared with 31,682 a month earlier, placing pessimists in a vulnerable position for short covering.

A more explosive example is Nafi, which skyrocketed from below 13 to about 67 in a relatively short time incidential to news of plans for purchase of the Chris Craft Corporation. Doubters sold short prematurely on numerous occasions and experienced difficulty in covering bearish commitments. Whether earnings have been overoptimistically appraised will be determined later as results are posted.



Many less well known electronics issues — some listed and others not — have registered even more extreme gains, but in such instances abnormal demand in the face of *scant offerings* explained the behavior.

A few of the large percentage movers, taken at random, that surged ahead for various reasons, include Collins Radio, a comparative newcomer to the Stock Exchange, which rose to 76 from 48 (its short position jumped in June to 12,577 shares from 5,705 in May); Commercial Solvents (whose earnings for the March quarter rose to 41¢ a share from 24¢ in 1959; Emerson Radio (reported seeking diversification in mergers); Marquardt (which may have a missile contract reinstated after cancellation); Standard Kollsman (helped by change in name from Standard Coil Products) and Universal Match (one of many favorites in the vending machine group).

The unusual behavior discussed here seems rather unrealistic when contrasted with weakness in undramatic stocks that have improved their competitive and earnings power.

Note stocks which lately have fallen to new lows for the year. There is American Bank Note, which showed distinct earnings progress in the March quarter, and improved profit outlook. Distillers-Seagrams, that seems likely to lift earnings in the fiscal year ending a month hence above the $3.11 a share for 1959. Goodrich, a blue chip which increased March quarter sales and earned almost as much as a year ago in spite of many difficulties.

Then take National Distillers & Chemical, where management is projecting net profit at $2.40 a share or more this year, against $2.23 in 1959. Worthington, a representative of air conditioning and heavy industry, which sells at 10 times estimated earnings of $5 a share this year.

These are only a few samples of undramatic ("non-electronic" shall we say?) issues that have fallen out of favor. It is these distortions in price behavior, many of which emphasize inexplicable favorites, that overshadow the mass of equities, that is undoubtedly the sound reason that regulatory forces are unwilling to restore lower margin requirements for fear of adding fuel to speculative fervor.

In Conclusion

It is clear the market is in a fluid condition right now. True, psychological and traditional factors at this time of year are inclined to look for a summer advance, but there are important factors in industry, — in the political arena at home, and in the disruptive forces abroad, that make it prudent to be cautious.

Not much stimulation to sentiment can be expected from mid-year earnings statements scheduled to appear in another two or three weeks. Comparisons with the fairly brisk June quarter of 1959, in which preparations were being made for the impending steel strike, promise to prove disquieting. Excessive productive capacity in almost every important industry has encouraged keen competition and put pressure on profit margins, and with minor exceptions, industry has been unable to pass along to the public higher operating costs attributable to wage hikes.

In the meantime, proposed additions to government spending have not jelled sufficient to improve the production picture. Thus, until the internal environment comes into sharp focus it is better for investors to keep to the sidelines awaiting clarification over the next fortnight. — Monday, June 27, 1960

SIZING UP THE CAPABILITIES OF THE PRESIDENTIAL CANDIDATES

—Republican — and Democratic

By McLELLAN SMITH

Note—*Because the Presidential Election this year will be one of the most important in our history, we must select the man who will be able to conduct our affairs and meet the onslaught of our enemies with wisdom, courage and the intelligence that comes from the inspiration of a dedicated heart. The need for such a man is imperative, for the Presidency today is an all-consuming task. Since we will have only two men to choose from — let us choose well, while we have the opportunity to do so!—Editor.*

FIVE months hence — on November 8 — the electorate of the United States will be engaged in its quadrennial task of choosing a pilot of our Ship of State for the four years beginning the following January 20. In short, we will elect a new President, and the responsibility is a grave one.

It might be an exaggeration to say that we are at a cross-roads in our history, but there is no exaggeration in the assertion that our new Chief of State will face up to problems of unprecedented magnitude, problems that will require political acumen and statesmanship of a marked degree.

Since we went to the polls in 1956 there have been vast changes on the domestic front as well as in the area of foreign relations. We are faced with the problems of economic as well as military survival,

and the next President of the United States will have the dual task of preserving our domestic economy and assuring us against extinction by enemies from abroad. The task is no easy one — the problem facing us is *selection of the right man for the job.*

Confronting the new President will be a public debt of \$288.9 billion, compared with \$272.4 billion four years ago; a budget of \$79.4 billion, against \$66.3 billion in 1957; a cost of living index which has jumped from 116.2 to the present 126.2 in the four-year span; and a dollar value which has slumped from 51.1 cents to 47.4 cents. But the jump in unemployment from 3.4 million to 3.5 million is of no real significance.

On the brighter side, our gross national product has moved up from \$419.2 billion to \$500.2 billion, a percentagewise gain of over 10 percent after allowing for the 7.8 percent decline in the value of the dollar.

As for the unemployment increase of 100,000, the labor force has increased by something near one million, indicating that the problem is not as acute as the drum majors of organized labor would try to have you think.

In the areas of foreign relations and defense, we have been jolted, make no mistake about it. This is due in a large measure to the great lack of the sophisticated propaganda needed to challenge the modern master of that art — the Soviet Union — whose technique has been developed by over 50 years of revolutionary activities. Thus the intensification of the cold war by Khrushchev has caught us off balance, causing us to make one mistake after another; playing down our scientific conquests while exploiting those of the Communist world.

Our position in the missile-space race is questionable, but there are solid reasons to believe that our alleged lag is not as bad as it seems. Certainly we are now superior to the Russians in space exploration and communication that is of real scientific and military value. Nevertheless, we — and the future President — will have these problems to face.

And Now a Look at Presidential Caliber

So much for a portion of the dilemmas which will face the new President. We turn now to the potential nominees — Democratic and Republican. There is no attempt here to do anything other than to appraise them, to evaluate their chances of nomination free of partisan bias. It is added that the author is a voteless resident of the District of Columbia, consequently not tied to any political party.

Turning now to Parties and candidates, announced and potential, and handling in strictly alphabetical order rather than in any order of prospects of nomination, the writer will give his views based on 25 years on the Washington political scene.

Announced Democratic candidates for nomination are Senators John F. Kennedy of Massachusetts and Stuart Symington of Missouri. Not yet a personally avowed aspirant is Sen. Lyndon B. Johnson of Texas, Floor Leader of the Senate, while a disavowed candidate whose actions belie his disavowal is former Illinois Governor Adlai E. Stevenson, two-time loser in the White House sweepstakes, now the proud holder of endorsement by Mrs. Eleanor Roosevelt.

Senator Lyndon B. Johnson

Of the four Democratic hopefuls, it would seem to the careful student of national affairs that Senator Johnson is the best qualified man for the toughest White House assignment in more than a century. He is that rare combination of politician and statesman. Now 52 years old, he has behind him nearly six full terms in the House of Representatives and two terms in the Senate, with seven years as Majority Floor Leader.

In this latter capacity, the Texan has displayed marked political ability, and has shown that he can rise above partisan politics in all areas, including foreign relations, a matter of elemental importance today, when we are faced with the necessity of considering world affairs as an integral part of our daily life. Uniformly, and without equivocation or partisan consideration, he has supported our Chief of State most notably against our Russian antagonists.

His political ability is highlighted by adroit maneuvering that has brought about passage of legislation distasteful to one area of the country, yet not necessarily satisfactory to all segments of the electorate. It was the political wisdom, the ability to weld recalcitrant elements into a solid whole, that produced the first — but not wholly effective — civil rights legislation since the War between the States. Definitely, he is not a compromiser, but when compromise is necessary to a goal he is smart enough to use it as a tool. This does not indicate a weakness — just the political "savvy" needed to take a step in the right direction.

Johnson, though not a member of the Foreign Relations Committee, has an uncommonly fine grasp of foreign affairs. This has been demonstrated in his nonpartisan support of the President in the U-2 spy plane incident and subsequent collapse of the Summit Conference. He seized no possible partisan advantage but stood "four-square" behind a President of the opposition Party.

His prospects for nomination are better than 50-50, despite the fact that some areas of the South may damn him for his effective handling of civil rights legislation. It is to be noted that most of the South's opponents of civil rights laws — Senators Russell and Talmadge of Georgia, and other Senators of the Southern tier of States — are supporting him, and will "go down the line" for him if he is the Democratic nominee.

Senator John F. Kennedy

Moving from J to K, we come to Senator John F. Kennedy, hardest running of all the Democratic candidates. He goes to the convention with 14 State primaries under his belt, but he labors under various fundamental handicaps.

Kennedy moves into the convention with his youth (43 at inauguaration time) as a decided deterrent. His religion (Roman Catholic) is not the negative factor it would have been back in 1928 when Democratic nominee Alfred E. Smith of New York was defeated primarily because of his Church affiliation.

Although the late Theodore Roosevelt moved into the White House at about the same age, he brought far more political know-how to the job than can be

boasted by Kennedy at this time. Roosevelt had behind him a background of the hurly-burly of politics in the nation's most populous state, New York.

Kennedy has behind him six years in the House of Representatives and is now in his eighth year as a Member of the upper chamber. During his Capitol Hill career, young Kennedy has had no experience with any of the Committees dealing with foreign affairs and relations, nor directly with defense. His Committee assignments dealt with the domestic scene. Beyond question, the next President must have intimate knowledge of foreign affairs and defense. In these areas the youthful Massachusetts Senator seems rather deficient despite a brilliant Naval career in World War II.

Primarily, Kennedy's legislative experience has been in the fields of so-called liberal legislation — education, labor, etc. His knowledge of farm problems would seem to be superficial, although his voting record on farm legislative benefits would indicate that he is aware of the enormity of our present farm "mess" with its resultant wasteful accumulation of staggering commodity surpluses, now with a storage cost of $1,000 a minute.

Reverting to Mr. Kennedy's foreign affairs and defense attitudes, it has only been since the Summit collapse that he has spoken out. His pronouncements were more platitudinous than of depth. Like being for "God and Mother," he is for strengthening our defense posture, and for a firm attitude in dealing with Khrushchev, but he has yet to specifically state how he would improve our defense or how firm he would be in dealing with the Communist conspiracy.

In fact, after the collapse of the Summit, *he indicated an apology was in order by the President, later correcting it to say at least an expression of regret should have been made.* This does not augur well for the leadership required to handle our most dangerous enemy.

On the labor front, and this is important as we see the forces of organized labor fighting to destroy the reasonably effective portions of the Landrum-Griffin Labor Reform Act, Kennedy has definitely sided with Labor. He did so when House-Senate conferees ironed out differences between the House-passed measure and the final Senate version. Further, he did this after two years of listening to the sordid tales of labor chicanery that were unfolded before the special Senate "labor rackets" committee. At this point, his candidacy has the blessings of certain of the larger unions.

Adlai E. Stevenson

Next, the writer moves to Adlai E. Stevenson who may be the final Democratic compromise should a deadlock develop in the convention. And it would be a bad choice for the Democrats for the reason that he could not win. But, if he should, through some upset, move on to the White House the country would be a worse loser than the Party of the donkey. He could be another Kennedy.

In the area of foreign affairs, Stevenson is definitely an appeaser. This trait was shockingly exposed when he accused President Eisenhower of supplying Khrushchev with the tools necessary to wreck the Summit conference. Four years ago he displayed appeasement tendencies when he proposed an almost unilateral abandonment of atomic tests, a move which could have meant national suicide with the Russians continuing on their atomic way. Likewise, he has pushed for disarmament on the basis that we should "lead the way," and without necessarily firm commitment from our potential enemies.

A man of lofty ideals, Stevenson is at times theoretical and impractical and, like all idealists, seems to have a contempt for some of the hard realities. In short, he very possibly clings to the theory that if we will be sweet and reasonable, then our foes will, out of shame, be sweet and reasonable too. It is a theory fit for a Sunday school classroom, or a school recess ground, but it is not workable in a world girded for war because the International Communists have absolutely no intention of being other than what they are.

Like most intellectuals, Stevenson is a liberal and far to the left of center. He believes in a Socialistic program of development of natural resources in the area of hydro-electric projects, and he favors stern government regulation of private enterprise. In other years he has had the endorsement of the "Spendocrats" of the labor movement. *Unquestionably, he would go "all out" for programs that could only add to our presently crushing tax burden with resultant inflation and further devaluation of the dollar. Basically I believe he would be dangerous to national welfare, domestically and in the field of foreign relations.*

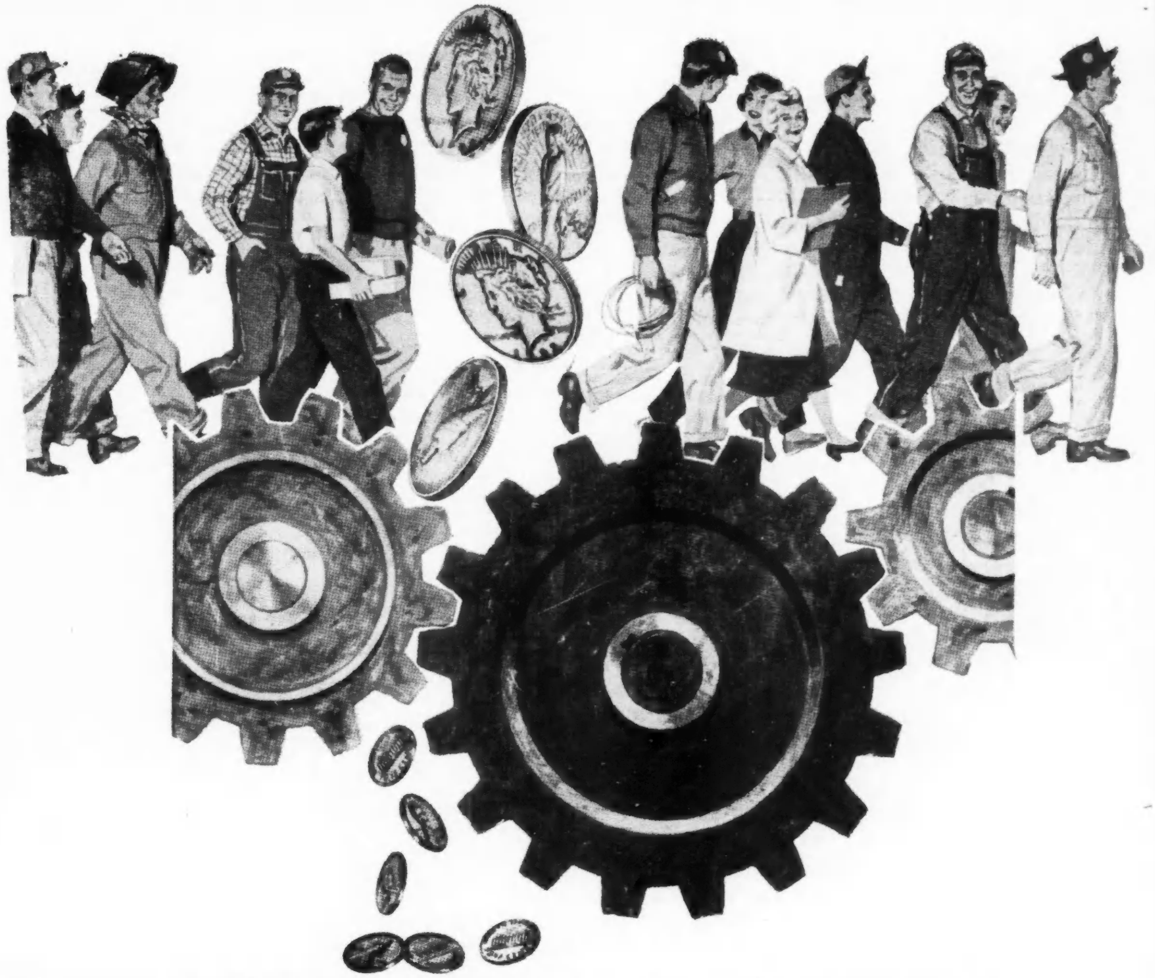
Stevenson's prospects of nomination depend upon a Democratic deadlock on the other candidates. His prospects of election, if nominated, are dim. He is not a good campaigner. Intellectually, he looks down his nose as he talks to an audience — and voters don't like that, regardless of Party loyalties.

Senator Stuart Symington

Last on the alphabetical Democratic list is Senator Stuart Symington of Missouri who goes to the convention with the support of former President Harry S. Truman Parenthetically, it is noted that four years ago Governor Averill Harriman went to the Chicago convention with the blessings of the same Mr. Truman — perhaps Mr. Harriman's kiss of death.

Symington, now 59, has much in his career to recommend him, but more that is negative from the Presidential viewpoint. He entered government service 15 years ago, starting with the old Surplus Property Board, moving up to Assistant Secretary of War for Air, Secretary of the Air Force, Chairman of the National Security Resources Board, Administrator of the Reconstruction Finance Corporation, thence to the Senate in 1952. He is now in his second Senate term.

A successful businessman in his own right, and through his service with the RFC, Symington has an excellent grasp of the problems of business and the national economy in general. His major Senate Committee assignments include Agriculture and Forestry, Armed Services and Aeronautical and Space Sciences. With his business, RFC and Committee backgrounds he should have fair knowledge of domestic and defense problems, and reasonable insight into foreign relations as he may have gleaned from the Armed *(Please turn to page 442)*



Where WAGE HIKES will SQUEEZE or UNDERMINE PROFIT MARGINS

By HOWARD NICHOLSON

- **The 248 major labor contracts coming up for negotiation will determine profits for one or more years ahead**
- **Even under existing contracts, cost-of-living escalator clauses will be operative whether business is good or bad this Fall**
- **Where wage increases in labor settlements already made, set a pattern for what is to come . . . with effect on profits in auto–rail—and steel industries . . . varying impact on electric utilities—telephone—and telegraph . . . new problems for airlines and aircraft manufacturers . . . with varying status for farm—heavy industry—and road building machinery . . . some reprieve for electric equipments.**

THE magnitude of the steel strike obscured the fact that 1960 would witness a veritable deluge of other labor negotiations and potential difficulties. Some of these are now out of the way, but before year-end the economy will be faced with potential shocks from the rail unions, the longshoremen's unions, and significant difficulties in a whole group of industries including aircraft, shipbuilding, electrical products, telephone and telegraph and several others of lesser importance.

► ***In fact, about half of all the labor agreements covering 5,000 workers or more were scheduled to expire and be renegotiated in 1960. Since most agreements are written for a minimum of two years it is apparent that the wage conditions that will influence corporate profit margins in the next few years will be established this year.***

Out of this welter of negotiations several important patterns have already emerged, so that some degree of prediction can be made. For example, all

but 34 of the 248 major agreements now in force provide for possible wage adjustments either through automatic cost-of-living clauses or through machinery which allows for reopening of negotiations under specified conditions. Consequently, one sure-fire bet is that almost all of the 122 agreements expiring in 1960 will include a similar mechanism at the conference table.

► ***For corporate profit margins, this factor has extremely important significance since the rise in the cost of living is occurring in the price structure for services and not in the products of major producing industries.***

As a result, the effect on major companies will be one of squeezed profit margins as labor costs rise while the prices of goods sold remain stable at best, or recede significantly, at worst.

Trend of Profit Margins

A look at the overall profit margin picture, as well as the specific margins for individual companies, points up vividly the changing character of corporate profitability and of the rapidly growing impact of wages on profits.

Except for a brief spurt after the 1957-1958 recession, corporate profit margins have been in a downtrend for almost five years. There are several reasons for this in addition to the rising cost of labor, but the significant point is that almost all others can be controlled by managerial decisions. Labor costs, however, once set by a labor agreement remain fixed and, as in the case of cost-of-living increases, may even rise whether the company is enjoying better business or not. True, a company may lay off workers in a lean period, but this introduces no reduction in cost per unit of output. It merely allows the company to cut its labor force in proportion to the cutbacks in production.

A good case in point is the automobile industry. The agreement with the United Auto Workers now in force doesn't expire until October 1961 for most companies, and November 1961 for Studebaker. Yet in October 1960 all of companies will have to raise their wage scales by 2.5% or a minimum of 6¢ per hour. This raise is part of the existing agreement, and has no bearing on the ability of the companies to pay. Thus, except for American Motors whose labor costs equal only 22% of sales, all of the companies will find their narrowing margins squeezed further in the last quarter of 1960 and the opening months of 1961.

The union, of course, will point to the increased production of the industry this year as justification for the raise, but even non-experts are aware that the compact cars, despite their success, are lower profit margin products for the car makers. By investing scores of millions of dollars in these new cars, the auto makers have not only protected their own position but have also secured the jobs of the auto workers. There appears to be no recognition of this fact, however, by the workers. In effect, as far as they are concerned, the companies exist for one purpose only—to pay their wages.

Nevertheless, one wonders if they are not running the risk of killing the golden calf. Chrysler's wage costs are already 33% of its sales and General Motors' has crossed the 30% mark. Only Ford, Studebaker and American Motors are reasonably low, and Ford's is climbing fast.

By Contrast, Let's Look At Their Profit Margins

General Motors—In 1955 GM's pretax margins were 22.2%. They fell steadily to 15.2% in 1958 and recovered some to 18% in 1959.

Ford's margins fell from 19% in 1955 to 7.6% in 1958 before recovering in 1959.

Chrysler's margin sank from 8.1% in 1955 to .5% in 1958 and then recovered to a subnormal 2.5% in 1959 .

With labor costs rising automatically this year, and new negotiations scheduled for 1961 it is fairly certain that this picture will not improve.

Settlements Show Wage increases

This conclusion is fortified by the settlements already reached in 1960. So far, only 3% of the agreements have resulted in no hourly pay increase, while over 40% called for raises of 10¢ an hour or more; and over 50% for raises up to 10¢ an hour.

But, and this is vital, almost all the agreements call for some form of wage adjustment in the future before new negotiations are scheduled. The hard stand of the steel companies bid fair to put a check rein on this upward spiral, but the eventual surrender of the companies opened the flood gates.

Varying Impact on Profits

Of course, not all wage increases fall with equal impact on the companies. The **electrical utility companies** and the telephone and telegraph corporations have a ready offset to wage increases. They merely confront their regulatory bodies with the problem, and invariably obtain the rate increase necessary to cover the increased wage costs. At least, that has been the pattern of the past. It will probably continue, but if it doesn't there are instances where the results would border on disaster.

Western Union, for example, signed an agreement only 2 weeks ago calling for raises that it is estimated will cost the company almost $1.00 per share in 1961. A similar agreement two years ago, however, was quickly followed by rate increases that offset the labor cost. It is likely, therefore, that similar action will be taken this time, also. Nevertheless, stockholders should bear in mind that until approved there is no assurance of this.

What is true for Western Union follows for **American Telephone, Pacific Telephone and the major utilities,** such as **Niagara Mohawk Power** and **Pacific Gas & Electric.** In effect, the workers get their raises and the consumers pay the bills in higher rates. The vicious circle thus continues. For the higher rates raise the cost of living to workers in other industries who then get higher wages from their employers. The employers, however, if they are producers of goods, not only pay higher wages, but also higher utility bills and suffer a further decline in profit margins.

Key Labor Contracts Up For Action In Balance Of 1960

Industry and Companies	Union	Contract Expiration Date	No. of Employees	Deferred Wage Increases	Percentage of Labor Costs To Sales	1958 Net Earnings	1958 Net Profit Margin %	1959 Net Earnings (Mil.)	1959 Net Profit Margin %
AIRCRAFT:									
Bendix Corp.	U.A.W.	Sept. 1961	13,000	2½%, 6¢ minimum 12/1960.	43	$21.1	3.4%	$27.4	3.9%
Boeing Airplane	I.A.M.	June 1960	15,000	—	32	29.3	1.0	12.4	.7
Douglas Aircraft	I.A.M.-U.A.W.	May 1960	52,000	—	38	16.8	1.3	d38.8	d3.8
Lockheed Aircraft	I.A.M.	May 1960	51,000	—	37	18.8	1.9	8.7	.6
Martin Co.	U.A.W.	June 1961	10,400	6/30/60 for all "in unit" empl.	N.A.	117	2.4	13.3	2.5
McDonnell Aircraft	Machinists	Sept. 1960	14,800	—	35	10.0	2.2	10.0	2.3
North American Aviation	U.A.W.	May 1960	21,000	—	41	26.7	2.7	30.7	2.9
AIRLINES:									
American Airlines	T.W.U.	Sept. 1960	7,500	—	44	16.0	5.0	21.0	5.5
Eastern Air Lines	I.A.M.	Sept. 1960	13,500	—	37	7.0	2.8	7.1	2.3
Pan-Am. World Airw.	T.W.U.	Dec. 1960	7,500	—	N.A.	5.1	1.6	7.7	2.0
Trans World Airlines	I.A.M.	Oct. 1960	6,700	—	42	d1.7	d.6	9.4	2.4
United Air Lines	I.A.M.	Sept. 1960	13,500	—	43	14.3	4.4	13.8	4.1
AUTO:									
American Motors	U.A.W.	Sept. 1960	10,200	2½%, 6¢ minimum.	22	26.0	5.5	60.3	6.9
Chrysler	U.A.W.	Aug. 1961		2½%, 6¢ minimum Sept. 1960.	33	d33.8	d1.5	d5.4	d.2
Ford	U.A.W.		576,000	2½%, 6¢ minimum Sept. 1960.	26	116.2	2.8	451.3	8.5
General Motors	U.A.W.			2½%, 6¢ minimum Sept. 1960.	30	633.6	6.6	873.1	7.7
Studebaker Packard	U.A.W.	Nov. 1961	8,000	2½%, 6¢ minimum Oct. 1960.	22	d13.3	d7.3	28.5	7.3
COMMUNCATIONS:									
American Tel. & Tel.	Communications	Oct. 1960	22,800	—	50	953.3	14.1	1,113.1	15.0
Pacific Tel. & Tel.	Fedr. of Women Tel. W. of S. Cal.	Sept. 1960	10,200	—	61	111.7	11.9	144.3	13.8
Western Union	Telegraphers		30,000	—	61	11.9	4.6	16.5	5.9
ELECTRICAL MFG.									
Electric Autolite Co.	U.A.W.	Aug. 1961	12,000	4¢ plus Sept. 1960.	36	2.6	1.5	7.0	3.5
General Electric	U.E.-I.U.E.	9-10 1960	93,000	—	40	242.9	5.8	290.2	6.4
Sperry Rand	I.A.M.	June 1961	5,000	5¢ - 10¢ May 1960.	46	27.4	3.1	27.6	2.7
Westinghouse Electric	I.U.E.	Oct. 1960	55,000	—	41	74.7	3.9	85.9	4.5
FOOD:									
Armour & Co.	U.P.W.-Amal.	Aug. 1961	15,000	6½¢ Sept. 1960.	13.5	5.5	3.0	14.0	7.5
GLASS:									
Libbey-Owens-Ford Glass	Glass	Oct. 1960	10,000	—	40	21.4	9.9	53.7	17.5
MACHINERY:									
Allis-Chalmers Mfg.	U.A.W.	Oct. 1961	44,000	—	32	19.6	3.5	22.8	4.2
Budd Co.	U.A.W.	Oct. 1961	11,000	—	45	2.0	.8	11.0	3.4
Caterpillar Tractor	U.A.W.	Sept. 1961	16,000	6¢ - 8¢ Oct. 1960.	33	32.2	5.4	46.5	6.2
Deere & Co.	U.A.W.	Sept. 1961	13,000	3% Oct. 1960.	36	42.0	8.8	48.4	8.9
International Harvester	U.A.W.			2½% 6¢ min. Oct. 1960.	31	42.9	3.9	76.4	5.6
PETROLEUM:									
Atlantic Refining	Atlantic Ind.	Mar. 1961	9,600	Can be reopened anytime.	20	36.1	6.2	30.1	6.7
Sinclair	O.C.A.W.	June 1961	9,500	Can be reopened anytime.	N.A.	49.4	4.1	45.5	3.7
RUBBER:									
Firestone	Rubber	Apr. 1961	18,000	Can be reopened anytime.	27	53.7	5.0	64.6	5.4
Goodrich	U.R.W.	June 1961	14,000	Can be reopened anytime.	32	35.4	5.1	37.5	4.8
Goodyear	Rubber	Apr. 1961	23,000	Can be reopened anytime.	28	65.7	4.8	76.0	4.8
U. S. Rubber	U.R.W.	May 1961	25,000	Can be reopened anytime.	34	22.6	2.5	35.5	3.6
SHIPBUILDING:									
General Dynamics	Metal Trades	June 1960	6,800	—	38	48.4	3.0	31.0	1.6
Newport News Shipbuilding	Independent	Sept. 1960	11,000	—	N.A.	6.7	5.2	7.7	—
New York Shipbuilding	Boilermakers	June 1960	6,100	—	N.A.	4.2	4.3	1.7	1.4
TEXTILS:									
Dan River	U.T.W.	May 1960	9,500	—	N.A.	6.2	3.8	8.3	4.7
UTILITIES:									
Consumers Power	Utility	Febr. 1960	5,400	—	19	31.5	13.8	37.2	14.4
Niagara Mohawk Power	Bro. Elec. W.	May 1960	7,500	—	20	30.3	11.5	31.4	11.0
Pacific Gas and Electric	Bro. of Elec. W.	June 1960	14,000	—	13	85.3	15.9	84.7	14.5
Public Service Elec. & Gas	Brotherhood of Electrical W.	May 1960	5,200	—	N.A.	35.3	10.2	39.2	10.6

N.A.—Not available.

It is obvious, therefore, that not all companies are as fortunate as the utilities. The impact of rising wages will hit their profit margins in proportion to two factors. The first is their ability to raise the prices for the goods they sell enough to offset the added wage costs. The second is the percentage that labor represents of their total production costs. For the telephone and telegraph companies it is exceptionally high, as can be seen from the accompanying table. For manufacturing companies it is generally not so high, but where it exceeds 30 or 35% any rise in wages becomes a serious cost factor.

High Labor Cost Industries

Among the industries faced with labor difficulties this year are the airlines and the manufacturers of aircraft. Both, moreover, number labor factors among their highest cost items. For the airline companies in the table, labor costs average over 40% of all revenues, while the figure is only slightly lower for the aircraft producers.

For the airlines the situation is complicated by the fact that although they are a regulated industry, the Civil Air authorities are not nearly so ready with offsetting rate increases as are the public utility commissions of the various states. In view of the enormous financing difficulties the airlines are now experiencing in line with their jet-purchase programs, this factor looms enormously in the fortunes of the airlines.

Few investors, or other members of the public ever bother to do the arithmetic, but if the 50,000 employees of the airlines in our table receive the prevailing 10¢ an hour pay boost, the cost to the companies will be $200,000 per week or $10,400,000 per year—a figure that would eat up a big piece of the interest charges these companies are now meeting on their enormous debts.

It shoud be pointed out, however, that many key employees of the airlines are pilots, engineers and flight stewardesses. And these are not the type of employees that receive only 10¢ an hour increases. Moreover, the wage figure does not include the cost of increased fringe benefits, or the cost of additional crews if flying hours are cut back by the agreement.

For the aircraft companies, the current spate of wage negotiations is more difficult than at any time in the past. The reason is simple. Until a few short years ago they had the lion's share of defense contracts in their pockets, and labor costs were absorbed readily by the government. Today, however, with electronics companies bidding successfully for prime government contracts in missiles, the aircraft companies are operating in a far more competitive atmosphere. Costs must be held in line with contract estimates or they run the risk of losing subsequent contracts. Or, as is more likely for most companies, if labor or any other costs exceed expectations, the companies must absorb them first and fight the government for reimbursement later — a process that is both costly and uncertain.

For companies such as **Mc Donnell Aircraft, North American Aviation** and **Martin,** that have managed to keep their profit margins relatively constant for the last five years, the problem is not too serious. But **Bendix, Lockheed, Douglas** and **Boeing** have had their share of troubles in the last few years, and huge wage increases will not help the picture. What is more, work stoppages will add substantially to labor costs if broad scale agreement cannot be reached.

At this writing there is news of an impending settlement of the wage problems within the aircraft industry, but investors should not lose sight of the fact that a 10¢ an hour boost will cost Douglas $10,000,000 a year and Lockheed almost as much. Bendix, with fewer employees would still be taxed $2,500,000 a year and Boeing over $3,000,000.

Reprieve for Electric Equipment

The situation for the aircraft manufacturers is made more acute by the fact that most electrical equipment companies will not be faced with major negotiations this year. Some, of course such as **Sperry Rand** will face automatic raises built into their existing contracts, but their bidding already includes this known factor.

Westinghouse and **General Electric** represent the big exceptions in the electrical equipment field, with contracts expiring in September 1960. These are vital of course, since they will set the tone for the rest of the industry next year. But in the meantime the other companies are free of major labor strife and may fatten up at the expense of the aircraft companies.

Contract Expirations Next Year

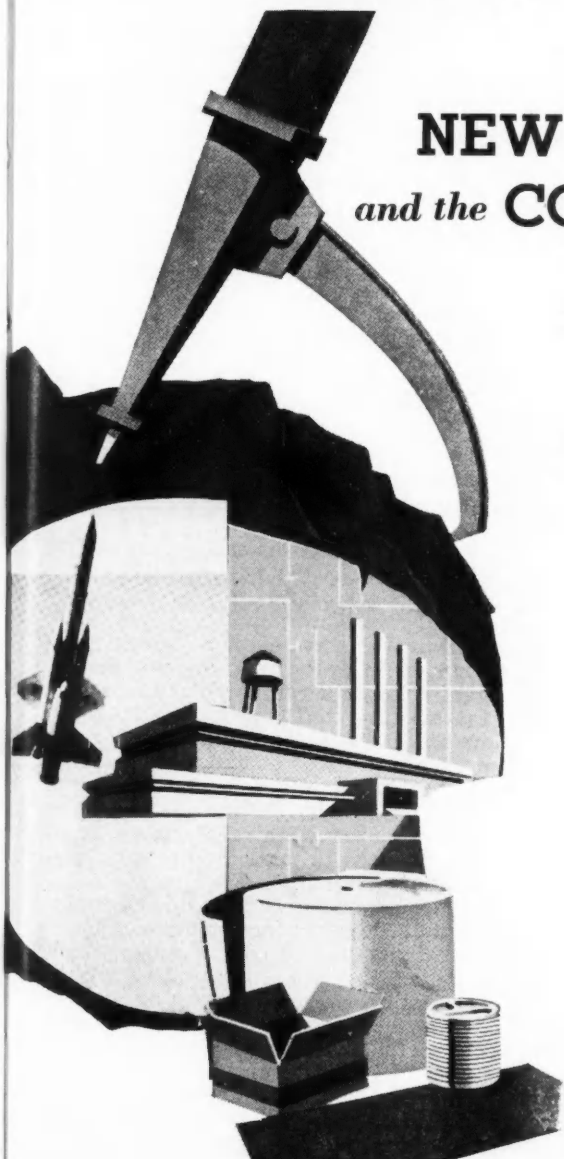
For several important companies contracts with the labor unions don't expire until 1961, but renegotiations are scheduled to begin in 1960. Thus the patterns set in the next few months will determine in no small way the atmosphere in which many major industries will be operating. For some there will be peace. For others, there will be a constant sword hanging over their heads and protracted bickering all through 1960 and well into 1961.

High on the list of these companies are the farm equipment, heavy machinery and roadbuilding producers. Such giants as **International Harvester, Caterpillar Tractor, Budd,** and **Deere** all must face the U.A.W. across the conference table beginning in October, although their contracts run into next year.

Labor costs for these companies vary between 31% and 45%, as can be seen in the table, but except for Budd all have managed to maintain fairly consistent profit margins in recent years. **Deere,** in fact, has enjoyed its most profitable period in history with pretax profit margins of 22% in 1958 and 21.5% in 1959.

However, it must be recalled that these two years were ones of resurgent demand for farm equipment—a demand that had been building up for years without fulfillment. Today the situation is different. Most of the pipelines are filled, but more importantly, farm income is not the buoyant factor it was just one year ago. Hence farmers have been cutting back on their purchases, as can be seen from the sales and earnings figures for the major farm equipment producers so far this year.

For **Caterpillar Tractor** there may be a ray of hope that profit margins can be maintained despite wage increase *if* the vaunted roadbuilding program finally rolls into high gear. In *(Please turn to page 445)*



What's Behind the NEW WAVE OF MERGERS *and the* COMPANIES INVOLVED?

By PAUL J. MAYNARD

- **Where advantages for manufacturing facilities and over-capacity problems exist — where broadening of sales, management and personnel enter into the picture — financial considerations — and strengthening of business base**
- **Difference between purchase and sale of assets — of mergers and consolidations**

WE are experiencing today a great wave of mergers, such as have occurred at various times in our history when financial stress and strains, or trade advantages of one kind or another make it necessary or desirable. In fact, the number of mergers has become so great in recent months. that some newspapers have set aside portions of their daily financial sections to the publication of nothing but merger news. The announcement of several new mergers or merger proposals is now a daily occurrence.

The present business climate, which is characterized by a relatively good stock market, a high level of business activity, but with increasing competitive pressures and reduced profit margins, appears to be particularly conducive to increasing the tempo of the merger movement in practically all fields of business.

In addition to intensifying competitive pressures, there are several other specific elements in today's business world, which have become increasingly important in adding fuel to the merger movement. Ranking high in this area is the heavy and complex structure of Federal income taxes which has a major influence on a growing number of business decisions. The relative shortage of top level executive talent is another key factor inducing mergers. The gain in the tempo of business activity, and the growth in total sales volume has been so rapid during the past two decades, that it has been difficult to develop

Recent Mergers and Acquisitions

Name of Company	Type of Business	Date Effective (1960)	1959 Net Sales (Millions)	1959 Net Earnings (Millions)	Terms of Exchange for Merger or Acquisition
*American Can	Large mfg. of containers.	May 26	$1,107.3	$40.9	For undisclosed amount of cash.
Allison Lumber Co.	Producer of lumber and pulpwood.		N.A.	N.A.	
*American Hospital Supply Corp.	Distrib. hospital supplies & equip.		77.8	3.3	
Canadian Laboratories Supplies Ltd.	Laboratory supplies.	May 3	N.A.	N.A.	Exchange of stock.
Arnar-Stone Laboratories, Inc.	Laboratory supplies.	Dec. 1959	N.A.	N.A.	Exchange of stock.
Hartman-Leddon Co., Inc.	Specialty reagents.	Dec. 1959	N.A.	N.A.	Exchange of stock.
Massillon Rubber Co.	Rubber supplies.	Dec. 1959	N.A.	N.A.	All stock was purchased.
*American Machine & Foundry	Bowling, industrial machinery.		225.4	19.0	Cuno stockholders receive 0.443 sh. of AMF for 1 sh. of Cuno.
Cuno Engineering Corp.	Industrial filters.	May 31	6.0	.4	
Maxim Div. (of Emhart Mfg. Co.)	Water purifiers; other prod.	May 12	N.A.	N.A.	For cash.
*American-Marietta Co.	Paint, resins, concrete pipe, building supplies, other prod.		323.6	24.0	
Fry Stone & Coal Co.	Coal and stone business.	May 6	N.A.	N.A.	Acquired for stock.
Consolidated Engravers, Inc.	Printing and engraving.	June 7	N.A.	N.A.	Signed agreement of acquisition.
*Brunswick Corp.	Bowling and school equipment; other products.		275.1	26.8	Owens stockholders receive 2 sh. of Brunswick for every 7 of Owens.
Owens Yacht Co.	Boats.	Mar. 28	15.4	.8	
*Burlington Industries	Large mfg. fabrics and textiles.		805.4	27.6	2½ sh. of Burlington common for each sh. of Lees common.
James Lees & Sons	Textiles.	March 24	83.8	5.7	
*Columbian Carbon	Carbon black; ink; gas & oil.		76.1	6.0	Transaction involved about $2.5 million cash.
Ander Chemical Co.	Printing inks.	June 1	3.0	N.A.	
*Flintkote Co.	Building materials; other products.		221.0	14.2	For more than $1.0 million in cash.
Sealzit Co.	Pressure guns and acces. equip.	May 31	N.A.	N.A.	
*Gardner-Denver Co.	Industrial equipment.		74.7	7.7	Issued 156,000 sh. of com. stk. for all the stock of Apex Mach. & Tool.
Apex Machine & Tool	Machine tool.	April 1	N.A.	N.A.	
*Genesco, Inc.	Shoes; other industries; stores.		276.4	8.6	
Wise Shoe Stores, Inc.	Operates 15 shoe stores.	May 9	3.5	—	No details disclosed.

*—Surviving Corp.
N.A.—Not available.

managerial ability in sufficient quantity to meet the expanded needs for top level business executives. As a result, there is the growing trend toward automation in many fields where the basic objective is to reduce overhead costs.

However, the costs of the equipment required to take advantage of automation is so high as to be practically prohibitive to the smaller corporate entities. Thus there is a tendency to achieve size in order to be in a position to automate.

Still another factor which may be termed unique in the present business scene, is the importance of military or government contract work in relation to the total sales and earnings of many enterprises. In such cases, the tendency to diversify by means of mergers is particularly strong.

In more specific terms, the reasons for acquiring a business may be summarized as follows:

► *Production*
- — To provide a better utilization of existing manufacturing facilities
- — To reduce over-capacity through the production of new products—toward the attainment of better profit margins

► *Sales*
- — To complete or broaden sales of existing lines
- — To utilize sales channels already developed for distribution of new products in order to make the sales organization more productive and less costly

► *Broadening Business Base and Financial Considerations*
- — To obtain the services of a proven management in order to strengthen the organization or acquire replacements for the existing staff
- — New concentration toward smoothing out cyclical trends or evening out seasonal factors in present lines ... to enter a new and growing field ... to secure or protect sources of raw materials or components used in manufacture (for vertical integration)
- — To acquire more modern plants and equipment ... to effect income tax savings

In the accompanying list of combinations which have been announced or have taken place within recent months there are examples of one or more of the foregoing factors at work. To cite a few cases:

The acquisition of ASR Products by **Philip Morris, Inc.** presents a case in which economies of distribution may be achieved through selling both cigarettes and razors and blades through the same channels in order to make the existing sales organizations more effective.

The combination of **Hunt Foods & Industries, Inc.** and **Wesson Oil & Snowdrift Co.** apparently will

Recent Mergers and Acquisitions—Continued

Name of Company	Type of Business	Date Effective (1960)	1959 Net Sales (Millions)	1959 Net Earnings (Millions)	Terms of Exchange for Merger or Acquisition
*Hunt Foods & Industries	Processer of foods; other products.	June 10	$307.9	$3.7	1 share of Wesson for 1¾ sh. of Hunt com., & each sh. of Wesson 4.8% pfd. to get ½ sh. Hunt 5% pfd.
Wesson Oil & Snowdrift	Cottonseed oil, packaged foods.		160.5	3.3	
*Litton Industries	Electronic equip. & components.		125.5	5.9	
Servomechanisms (Canada) Ltd.	Electro mach. control equip.	April 4	N.A.	N.A.	No details announced.
Data Processing Co.	Electronic processing equip.	May 3	N.A.	N.A.	No details announced.
Western Geophysical Co. of Amer.	Geophysical services.	May 31	N.A.	N.A.	Would issue up to 295,000 shares over period 5/31/60 to 2/1/1965.
*McCrory-McLellan Stores Corp.	Variety Store chain.		171.5	4.3	1 sh. B.T.L. com. for 3 McCrory com.
B. T. L. Corp.	Controls United Stores Corp.	July 15	N.A.	N.A.	
United Stores Corp.	Holdings in McCrory-McClellan.	July 15	1.0	.8	**.
*Nafi Corp.	Boats, oil, gas, TV, auto fabrics.		22.7	1.0	Acquired all common shares of Chris-Craft for $40 million.
Chris-Craft Corp.	Motor boats.	April 5	N.A.	N.A.	
*Newberry (J. J.) Co.	Variety Store chain.		238.0	5.5	
Hested Stores Co.	Chain of 96 outlets.	May 15	N.A.	N.A.	No details announced.
*Northrop Corp.	Electronic equip.; planes.		262.8	7.3	
Acme Metal Molding Co.	Mfg. distrib. aluminum prod.	June 6	5.0	N.A.	Acquisition of all stock.
*Pittston Co.	Coal; oil prod.; trucking.		207.7	4.8	To merge with Pittston owned U. S. Trucking Corp. No details.
Brinks, Inc.	Trucking.	Mar. 30	N.A.	N.A.	
*Phillip Morris, Inc.	Cigarettes; tobacco.		460.5	17.5	
A. S. R. Products	Safety razors, and other products.	May 4	32.1	1.6	Consummated acquisition of assets of A. S. R. Products.
*Standard Packaging	Paper and plastic products.		87.9	4.1	5 sh. of new Standard Pack. 6% pfd. for each 8 com. sh. of Brown & Bigelow.
Brown & Bigelow	Mfg. calendars, cards, novelties.	April 5	50.7	2.3	
*Universal Match Corp.	Bookmatches, various other products.		72.3	4.8	Universal Match acquired S. & H. for 29,240 sh. of its pre-split com. sh.
Sleight & Hellmuth, Inc.	Mfg. of printing inks.	May 9	4.0	—	
*West Virginia Pulp & Paper Co.	Mfg. printing, kraft & bond paper.		233.1	11.7	West Va. P. & P. has acquired 50% of U. S. Envelope.
U. S. Envelope Co.	Stationary, bags, etc.	May 19	54.7	1.3	

N.A.—Not available.
*—Surviving Corp.

**—1 sh. United Stores $6 pfd. for 1 sh. new Mc Crory $ 6 pref. Stk.; 1 sh. United 2nd pfd. for ¾ sh. Mc Crory com.; 1 sh. United com. for 3/14 sh. Mc Crory com.

broaden the existing line of the former.

The acquisition of **Owens Yacht Co.** and **Union Hardware Corp.** by **Brunswick Corporation** also broadens and diversifies the latter's lines with possible economies of distribution.

Along different lines are the vertical integration aims of the acquisition of **Allison Lumber Co., Inc.** by **American Can Company.** Also, the acquisition of **Sleight & Hellmuth, Inc.** by **Universal Match Company.** The former manufactures printing and lithographic inks which Universal Match Company needs in producing cover designs for certain of its products.

The acquisition of **Wise Shoe Stores, Inc.** by **Genesco Inc.** adds the 15 shoe store outlet to the already large shoe retail store system of Genesco, thus broadening the latter's line.

Likewise, the **McCrory-McLellan Stores** combination with **BTL Corporation** and **United Stores, Inc.** brings together a group of related companies under a single corporation to be named **McCrory Corporation.** Thus, the intercorporate structure is simplified and made more efficient.

The acquisition of the **Hested Stores Company** with 96 outlets by **J. J. Newbury Company** will provide the latter with an expanded distributing organization.

Pittston Company, which already owned **United States Trucking Corporation,** an armored car company, has acquired 90% of the stock of another smaller company, Brinks. The merger of this company expands the business and coverage of United States Trucking Corporation.

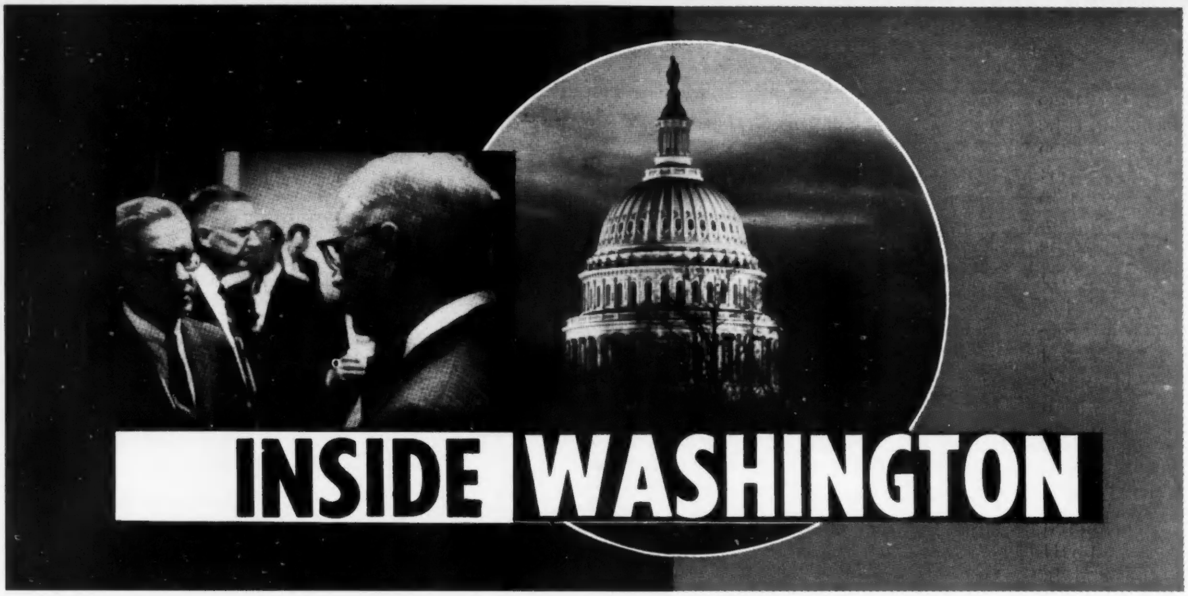
The reasons for most mergers are fairly obvious. For example, the combination of **James Lees & Sons,** makers of floor covering, with **Burlington Industries, Inc.,** should develop more fully the latter's textile business.

Litton Industries Incorporated's acquisition of **Western Geophysical Company of America** and **Servomechanisims (Canada) Ltd.** fills out Litton's line of proucts and outlets. Also, the addition of **Integrated Data Processing Co.** complements the line of Litton's **Monroe Calculating Machine** subsidiary.

Gardner-Denver Company, a maker of rock drills and air tools for mining and general contracting and quarrying work is acquiring **Apex Machine and Tool Company,** a producer of screwdriver bits, sockets and power tools and universal joints. This is obviously a complementary combination.

Mergers and Combinations

The principal means used to effect business combinations in recent cases reported have been by mergers, consolidations and purchases of assets. The principal difference between a merger and a combination is that a merger involves the fusing of one or more corporations into one already in existence, while a consolidation involves a complete union of two or more companies *(Please turn to page 443)*



INSIDE WASHINGTON

BY "VERITAS"

MORALS — what has become of them in public life? The question is one that is asked here with increasing frequency, and with good reason. Months ago, enterprising newsmen exposed rank nepotism in Congress, revealed public moneys were being spent for non-existent offices, or offices located on front porches or in private garages. Did anything happen to correct the smelly situations? Not that anyone has been able to learn. The practices continue, unabated. More recently it was revealed that our counterpart funds abroad and expense moneys for Congressional investigations here were being recklessly spent for purposes other than Congressional business. Has the practice stopped? Not that can be learned. There has been the explanation that accounts were not itemized "because Congressmen are not good accountants." Meanwhile records of these public expenditures have been put under lock and key, away from "nosy newsmen." True, only a few of the legislators were "poor accountants," but the fact remains that Congress has done absolutely nothing to further open the records for public inspection—nor will it any time in the near future. That the majority elects to protect the minority of malefactors directly reflects upon the integrity of the whole Congress. Does the majority look toward future enjoyment of the privileges of unlimited public expense accounts?

WASHINGTON SEES:

After having made the error of assessing the U-2 incident as a blunder of the first magnitude on the part of our government, instead of recognizing and spotlighting it as a dramatic opportunist move by Khrushchev to break up the circle of American bases on Soviet borders — we continued the same mistake in reporting the riots in Japan.

Just read the press and listen to the commentators, and you will see that we are still following Communist line, which is now telling the world that our international prestige has sunk to a new low because the Japanese government called off the President's visit to Japan, **when actually the truth is that the Communists are the ones that have lost "face" and prestige,** as a result of their failure to prevent ratification of the 10-Year Mutual Security Pact between the United States and Japan. This despite the huge sums spent in recruiting mobs, and the evil campaign of insult and provocation they promoted.

How long are we going to continue to have Communist propaganda lead us by the nose? Isn't it about time that we think for ourselves instead of letting the Communists do our thinking for us?

It is clear that we are sadly in need of more accurate "intelligence", as well as realistic and sophisticated propagandists with the experience necessary to match the skilled Russian counterparts. We have a candidate in Mr. J. Edgar Hoover, head of the F.B.I., for the first job, and I could name several who could direct the 2nd one.

ARMY shares the guilt too, not of expense accounts but of concealing expensive inadequacies and inefficiencies from the public eye. Only recently, the General Accounting Office revealed that hundreds of millions of dollars worth of our tanks and other armored field vehicles are woefully defective, made of inferior materials and otherwise inadequate to the demands of war. Army has certainly known this for many, many months but has done absolutely nothing; even now goes before a Congressional Committee to deny the charges of GAO. The $64 question is: Who in Army procurement kept mum lest there be a loss of favors from the defaulting designers and contractors?

CONCLUDING, it should be noted that 12 top government figures have been forced out of office for irregularities that border on the immoral. The latest was Dr. Henry Welch, of the Food and Drug Administration, who used his position for his personal financial benefit. If Washington is a cross section of America, then there is no doubt that national morality has sagged to a dangerous low.

As We Go To Press

Youth Moves To Front As Spending Force. The junior market is attracting more attention today as 16 million teen-agers muster more than $6 billion annual spending income of their own — more than triple the figure of five years ago. Further, the youngsters exert great influence on spending habits of their families — from autos back to breakfast cereals. Plentiful employment enables the youngsters to earn all of their spending money and 20% of their college expenses from part-time jobs.

As the high schoolers move to the front as earners and spenders, their older brothers and sisters buying homes are not as old as they were just 20 years ago when the median age of new home buyers was nearly 40. Today new home buyers are just under 34 years of age. Two influences are noted — easier mortgage terms and better employment possibilities in the so-called atomic-scientific age.

Foreign Policies Can't Be Kept Out Of Campaign. Thus far, Democrats have been pretty solid in their support of the President in his bitter experience over collapse of Summit conference and the Japanese incident, but this is certain to melt away in the heat of the campaign, especially if Mr. Nixon declares he will carry on with the Eisenhower foreign relations program. Nixon is almost certain to be labeled an appeaser of Communism, a reversal of his attitude when he successfully brought about the prosecution and conviction of Alger Hiss and later campaigned against Helen Gahagan Douglas, leftish California Congresswoman, for his Senate seat, accusing Mrs. Douglas of being too friendly to the Reds. But it will be folly for the Democrats to do so, since the long history of appeasement will boomerang against them.

Johnson Bandwagon's Momentum Irresistible? Less than two weeks before the nominating convention in Los Angeles, a majority of Capitol Hill Democrats say "It can't be stopped." Reminded of Sen. John F. Kennedy's commanding primary lead, the uniform reply is (1) He is too young, (2) Lacks the needed high-level political experience, and (3) The so-called "Bible Belt" will not accept him because of his religion. It is further noted that about the only Senate Democrats who are not openly supporting Johnson are Kennedy himself and Stuart Symington of Missouri, also an avowed candidate for the White House. Four weeks ago, smart Washington money was laying 5-3 that Kennedy would win on first or second ballot. As the convention moves toward the gavel fall, it is even money that Johnson and Symington will have enough votes to stop the youthful aspirant, with Symington later throwing support to Johnson. Big boost for Johnson came when Sen. James E. Murray, aging liberal Montanan (retiring at end of present term), who endorsed Johnson as the man capable of leading U.S. at this time.

C. & O. — B. & O. Merger Seems Assured. Not this year, however. The Interstate Commerce Commission, with the proposal before it will, out of respect for its time-honored tradition of thorough investigation, hold hearings and study the proposition for many months. In the meanwhile, there is evidence that ICC, aware of the fact that too many rail services are mere duplications, that many major rail carriers are in fiscal trouble because of these duplications, that our basic transportation system is jeopardized, and that mergers in areas of duplication can materially reduce labor costs, will doubtless come through with merger approval. At the same time, Department of Justice is studying the proposal and will give its blessing provided it is shown the economies to be gained for the public will outweigh any threat of monopoly.

Defense Industry Strikes Fret Congress. The Solons will make no move in the nearly-ended Session, but something will come up early in the next Session, regardless of which Party captures White House and Congress next November 8. Halting of work by the Machinists' union at important missile bases, and the long work stoppage at shipyards building nuclear powered naval vessels

point the way for necessary legislation. Further, the tense international situation, which is capable of erupting, points up the necessity that there be no work stoppages in industries directly related to defense. Generally in favor at the moment is an Act similar to the Railway Labor laws which provide for restraint of strikes until after a Presidential-appointed fact-finding board can explore the dispute and make recommendations. There is some Congressional feeling that strikes on defense projects in this age are tantamount to treason.

Labor Goes After Farm Worker Organization. The AFL-CIO, through its newly chartered Agricultural Workers Organizing Committee, will try to unionize the farm workers of the nation. First move will be in California where a large percentage of farm workers are Mexican migrants. If success is met there, the organizing program will become nationwide.

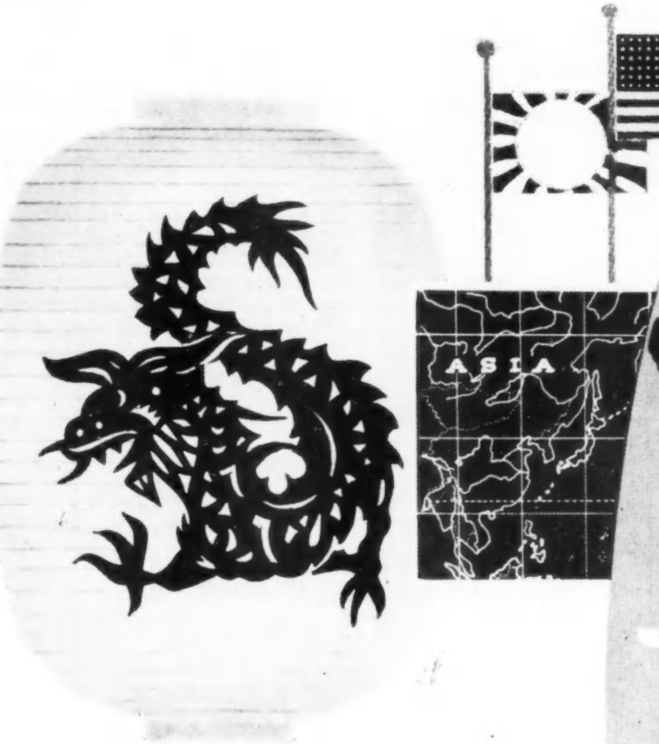
Elsewhere on the labor front, the South continues to resist unionization. Three factors working against the unions are Right-to-Work laws in many of the southern States, the native-born southerner's insistence upon freedom from financial (dues) obligations to "outsiders," and union insistence on full and complete racial integration of workers, still highly objectionable to the southern factory worker.

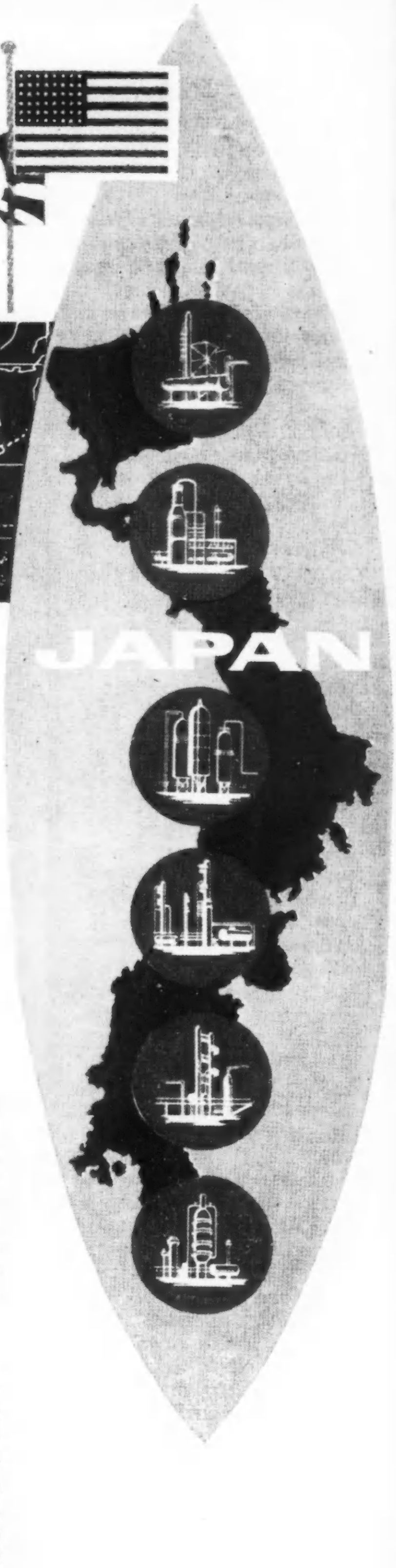
South Intensifies New Industry Drive. The southern tier of States have laid out elaborate, and expensive, programs to bring more small industries south of the Mason-Dixon line. Their arguments will be both numerous and impressive — better climatic conditions with less absenteeism traceable to respiratory illnesses stemming from rigorous winter climates, lower living costs for the employee who can wear the same clothes year-round and save on fuel bills and, last, but by no means least, laws to restrain unreasonable union practices. Most of the southern states are already offering special tax inducements, cooperation in the design, construction — even low-cost financing — of new plants.

Mississippi, through its so-called BAWI (Balance Agriculture With Industry) plan, has added numerous small industries to the State, despite a population decline. The plan includes liberal tax concessions as well as financing of needed new plant construction. In seven or eight, maybe 10, years of operation, the State has lost no money on the plan, brought some 25 or 30 new plants into Mississippi and furnished permanent employment to around 15,000 persons who might otherwise be idle in an excessive farm population. Just one of the BAWI selling points is the State's Right-to-Work law. Resistance to racial integration has not been a deterrent factor, although some larger industries hesitate to move South for this reason. Generally, the southern States feel that large numbers of small industries are preferable to the larger operations, all too often subject to union domination.

Natural Resources Developments, primarily hydro-electric, to loom large in Democratic platform while GOP will stick to Eisenhower concept that they are local responsibilities for private development, or at least with benefitted areas bearing major portion of costs. Western States bloc, spearheaded by California's governor Edmund G. (Pat) Brown, aided and abetted by the Democratic Advisory Council's Natural Resources Committee, has already drafted the natural resources plank. Brown, and that means all of California, would like to see further extensive development of the Columbia River basin with transmission of power to the Northern and Central areas of the State at Federal expense. It is engineeringly possible, but the cost would be somewhere close to prohibitive.

Home Mortgage Rates To Hold Steady. This according to a top authority in the field who says that despite the recent drop in the discount rate by Federal Reserve Banks, no important or significant cut in home mortgage interest rates will occur during the remainder of this year. He slightly qualifies the statement with the observation that home loan interest rates may ease "fractionally" in some areas because of local competitive conditions, but that the national outlook is steady to firm until there are further substantial money-easing moves by the Board and other Federal lending agencies. In the meanwhile, there is the growing feeling in Washington that building and loan institutions are recklessly narrowing the gap between interest paid to depositors and interest charged borrowers — even on Federally guaranteed home mortgages.





U.S. STAKE IN JAPAN

—As a Free Nation...
—An Important Customer...
—And Business Partner

By MARTIN JIRI KALLEN

- **Why Japan has such a strongly orientated Communist corps that differs from other Asian countries**
- **As Red China eyes Japan's flourishing industrial economy covetously**
- **Why Japan's amazing economic resurgence depends on export trade to the West . . . the extent of desirable import-export trade between the United States and Japan — and future growth potentials**
- **Investment prospects in Japan . . . what status for Japanese companies? . . . position of foreign corporate investments in Japan up to now. How Japanese financial growth is bringing gradual lightening of regulations**

DESPITE ratification of the 10-year Mutual Security Agreement with the United States, recent events in Japan, which forced cancellation of President Eisenhower's visit there, must now be viewed in broad perspective. While South Korea is our foothold on the continent of Asia, Japan is the capstone of our strategic alignment in the Pacific. It acts as the key link in our chain of peripheral island bases—starting in the Western Aleutians and ranging southward to Taiwan and the Philippines—which are vital to the support of free Asia—as well as the containment of the predatory Communist power on the mainland, seeking elbow room for its explosive population.

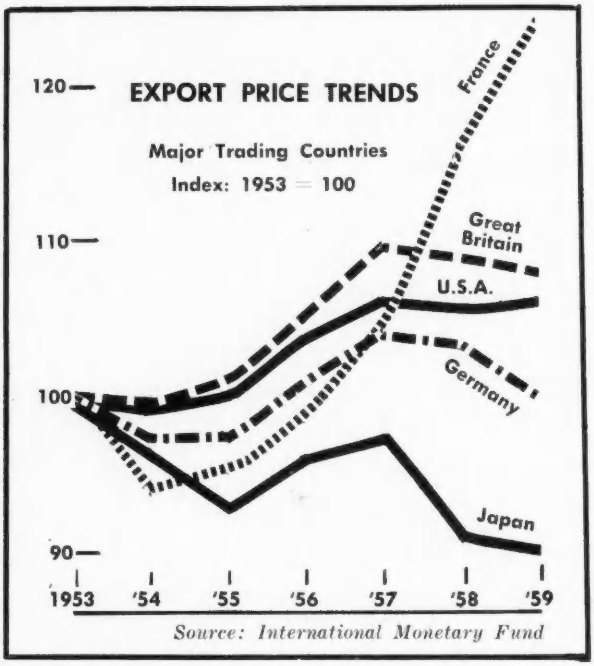
In the past decade, Japan's strategic importance has been

bolstered by its amazing economic resurgence. Factory output, exports, and personal income have risen phenomenally. Strength and prosperity have been wrought with the sinews of heavy industry, so that today Japan is the world's leading shipbuilder, the fifth largest steelmaker and Asia's principal industrial power.

No wonder the Chinese Reds are eager to make a satellite of this nation, whose industrial and financial talents, plus the capacity for hard work, could help solve the production deficiencies in which the Chinese Communists are now wallowing.

Japan's government has been in moderate hands since the end of the war. The ruling Liberal-Democrats, with more than 60% of the seats in Japan's legislature, are a right-center party which believes in free enterprise and the maintenance of close relations with the West. They derive their largest support from the ranks of small business and from the independent peasantry, who became property owners following the occupation-introduced land reform of 1946.

It is against this positive background that one must view the recently publicized disorders. Japan's Communist Party —small but disciplined— is well aware of the key spot in the Pacific its country holds in the Free World's line-up against attack from Red China. Working through labor unions and the student groups they have infiltrated, Japan's Communists have mounted a well-time offensive with three objectives: (1) to bring down the Kishi Government; (2) to rupture relations with the United States; (3) and to force Japan into the neutralist camp—and eventually into the Communist orbit.



Source: International Monetary Fund

The vulnerability of Japan to Communist subversion within her own country is due to the fact that when the Russians over-ran Manchuria just before the end of World War II, they took some 200,000 Japanese prisoners and kept them captive for periods of 5 to 10 years before they were returned to Japan. During that time they were thoroughly brain-washed and indoctrinated in the Communist idealogy and are today the backbone of the Communist movement in their country, and account in a large measure for the professionally organized mobs that terrorized Tokyo in recent weeks.

It is this situation that accounted for the fervor of the Tokyo street demonstrations, which so surprised Americans. But it must be borne in mind that the Communists on the one hand have been seeking to exploit for their own purposes, a variety of popular grievances and frustrations (which includes the explosion of the atomic bomb at Hiroshima and Nagasaki). And, on the other hand, they seek to stir up the old distrust among Americans against the Japanese for the "sneak" attack on Pearl Harbor, while their diplomats were negotiating peace in Washington.

It would be a tragedy indeed if such tactics are allowed to weaken the good relations existing between the United States and Japan. The Kishi Administration, torn by internal squabbles for some months now, has been the casualty sought by the mobsters. But the conservatives (Liberal-Democrats) are expected to retain their majority position even if a new election is held. Because so much hangs in the balance, it is important that Americans realize the desirability of the maintenance of good relations with Japan.

Recent Economic Progress

Japan is now riding the crest of an unprecedented wave of prosperity. The decade of the Fifties closed with a "Great Leap Forward" that carried the economy to a new high. Few countries have experienced anything comparable to Japan's fabulous rate of economic growth since World War II.

Between 1950 and 1957 Japan achieved a remarkable trebling of industrial output. Even Dr. Adenauer's Germany, whose production record has been the envy of Western Europe, could manage no more than a doubling of factory output in this period. Following a pause for breath in 1958, there was another 25% gain in Japanese industrial production last year, and the record for the first half of 1960 is again very impressive.

Wage rates and personal income have advanced accordingly. (See accompanying charts.) Average annual per capita income has risen from $113 a decade ago to nearly $300 today. Since prices in Japan are low, the real purchasing power equivalent of this income is as much as double the dollar figure, which for a typical urban family of five would mean potential buying power of up to $3000. Even so adjusted, the amount is misleading, since Japanese taste in food, housing, and furniture is quite simple, and thus proportionately greater income remains for purchase of appliances and the like.

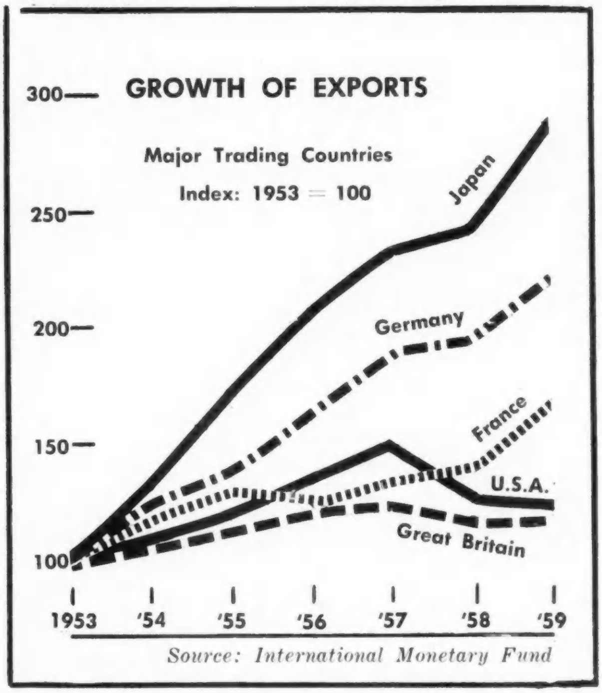
The signs of prosperity are everywhere apparent. In the countryside one finds that farmers are increasing their purchases of simple mechanical equipment. City streets are clogged with Japanese-made automobiles and motorbikes. Rooftops in the sprawling Tokyo suburbs are a jungle of TV antennas.

More than 80 stations are now telecasting daily, and at least one in four Japanese families own a television set—a degree of ownership that existed in the United States only as recently as 1951. Two-thirds of Japanese households now have sewing machines, and about a third own refrigerators.

Japan's present day accomplishments stand out sharply in contrast to the natural austerity of its island home. Though well supplied with scenic charm, the country lacks both agricultural land and natural resources. More than 90 million people are squeezed into an area smaller and less fertile than the state of California. Reliance must be placed on imports for 20% of the nation's food supply and nearly 80% of its raw material needs.

Export or Die

It is this absolute dependence on imports that makes necessary the export orientation of the Japanese economy. An ever-growing volume of exports are required to pay for the import needs of an expanding economy. If the growth process becomes unbalanced, as it did following the Korean War boom and again during the investment splurge of 1956-57, then the balance of payments is thrown heavily into deficit and foreign exchange reserves are drained away. The required remedy is a period of drastic retrenchment and government induced credit stringency.



Source: International Monetary Fund

Competitive pricing has had much to do with Japan's success in promoting its exports. ***As clearly indicated in the accompanying pair of charts, Japan is the only major trading country whose export prices have trended downward in the past decade. They average 10% lower in 1959 than in 1953, whereas U.S. and British export prices averaged 7 or 8% higher and Germany just managed to stay even.***

This advantage shows up vividly in the volume of exports, where Japan's rate of growth has far surpassed its competitors.

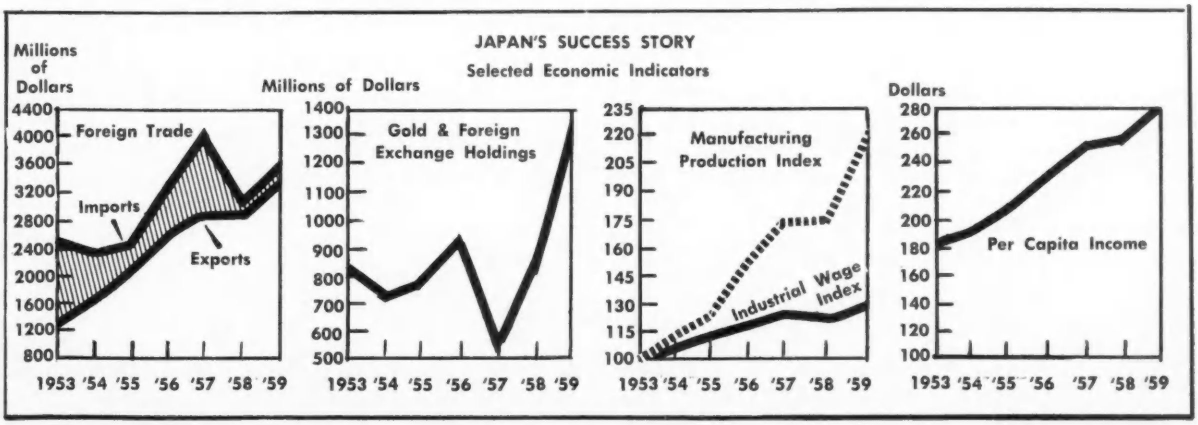
Japan's exports last year reached a record total of $3.5 billion, up 20% over 1958. The United States is Japan's largest single market, currently buying about 30% of its total exports.

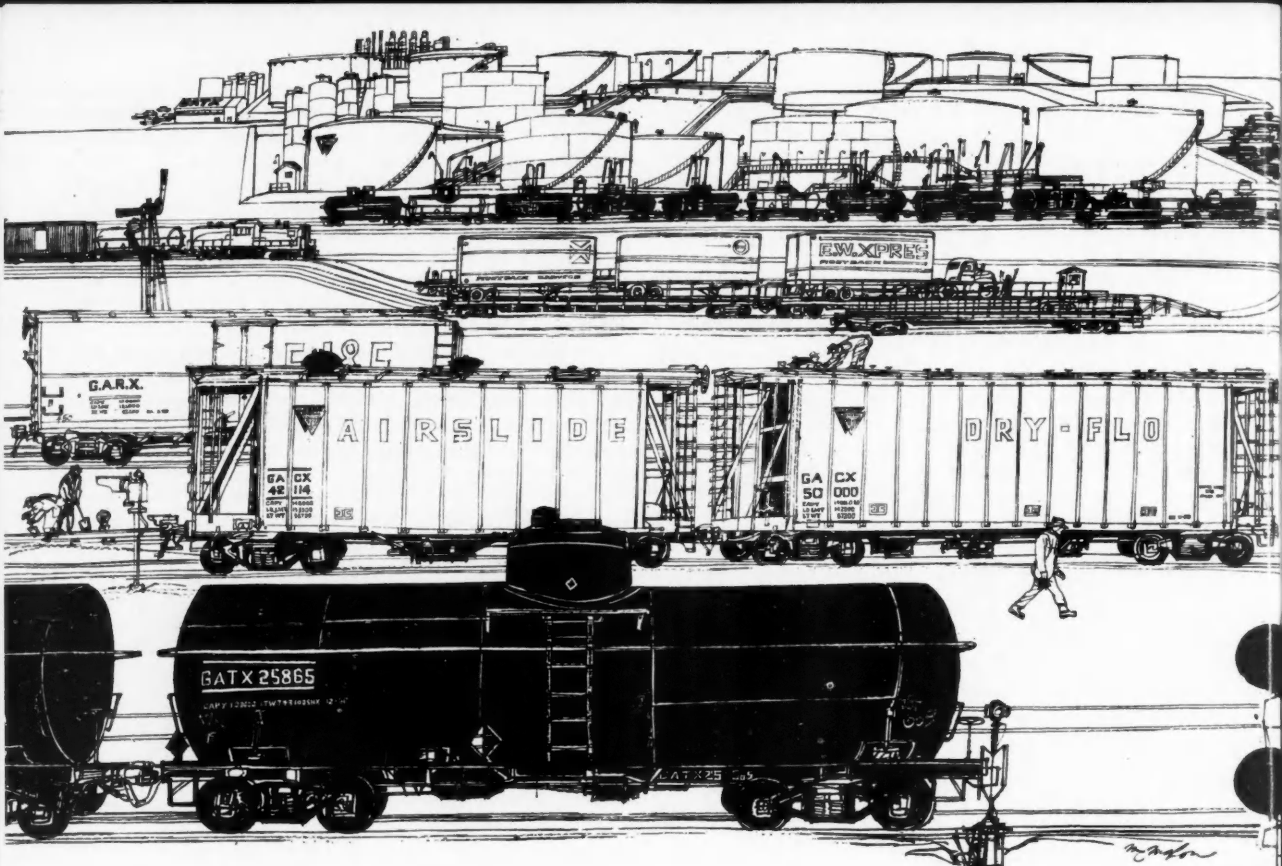
Japan has striven hard to develop larger sales in Southeast Asia, but low income levels there and shortages of foreign exchange have been a deterrent. All of Asia combined bought no more from Japan last year than the United States.

While Japanese exports are primarily manufactured goods, its imports are mainly raw materials — particularly textile fibers, fuels, and metals. Total imports last year, at $3.6 billion, were only about $100 million larger than exports (vs. a $1.4 billion gap in 1957. Foreign exchange earnings from other sources more than made up the gap, and Japan's total reserve holdings climbed by nearly $500 million.

The United States is Japan's largest supplier and in U.S. terms Japan is our second most profitable export market, ranking after Canada. U.S. sales to Japan last year (see accompanying table) covered a wide range: foodstuffs and cotton, coal and petroleum products, woodpulp, chemicals, metal products and scrap, and machinery of various types.

Our exports to Japan have averaged close to $1 billion for each of the past four years. What must not be lost sight of is *(Please turn to page 438)*





Special Mid-Year Reappraisal and Dividend Forecast . . .

AN EXPERT REAPPRAISES VARYING OUTLOOK for the RAILROADS —*Looking to 1961*

By JOHN D. C. WELDON

► **How dismal is the outlook for the rails — which are in the best position — those where increased costs and lower profit margins spell new problems**
► **Where healthy conditions exist . . . contrasts between West — Mid-West — Eastern — and Trans-Continental**
► **What chances for diversification — mergers — recapture of business loss to trucks — outlook for the second half — into 1961**

FOR railroads, along with most segments of the economy, the beginning of the "soaring sixties" was to be a prosperous period, or so seers predicted last fall when the annual forecasting derby was under way. Coming on the heels of two extremely poor years in a row, sharp revival of railroad earning power would have been a welcome change in 1960. However, with the first half just about over, it is becoming increasingly clear that the carrier group will not enjoy one of its better earnings years in 1960.

A dramatic surge in traffic was expected to stem from a high level of activity in the steel industry in the first half. However, the steel operating rate never threatened the maximum capabilities of the industry, and after a relatively short period, ingot production began to slip rapidly, winding up at a 93% average for the first quarter. It soon became fairly obvious that steel customers had no intention of rebuilding inventories to even an approximation of pre-strike levels; quick delivery rapidly became a steel mill selling point, and under such conditions the advantages of trucks over rails became obvious.

Meanwhile, weather conditions in the early

months were bad, seasonally. Although customary for a first quarter, one important difference this time was that snow blanketed many areas which usually escape the winter's worst blasts. Finally, to top the bad news came Uncle Sam's decision to leave most of his grain in storage, thereby severely reducing the movement of highly lucrative business for many Western roads. The unfavorable traffic picture looked worse than ever when compared with the busy 1959 months prior to the anticipated steel strike. And, as the first half of 1960 drew to a close, Class I carloading's were well under those of the year before.

Earnings Suffered

As one might expect from a description of the traffic experience, the industry's earnings performance has not come up to expectations thus far in the new year. Class I earnings for the first four months fell to $147 million, from $162 million in the like period of 1959, or a 10% drop. Considering that April—the latest month reported—showed a decline of 23% from the corresponding 1959 month (when the pre-strike buildup was only approaching its peak) the news ahead is likely to worsen before it improves, since May and June carloadings were also below 1959 levels. Finally, to complete the nearby earnings outlook, this July promises to be an even slower summer month than usual, since steel inventory liquidation is not likely to run its course until August at the earliest.

A New Wage Hike

As if the carriers were not having enough trouble coping with the disappointing level of traffic, the stage has been set for another sizeable hike in industry payrolls. Assuming that the recent settlement with the Brotherhood of Locomotive Engineers and the Order of Railway Conductors and Brakemen establishes a national pattern as is likely, some $200 million of additional expense will have been added to the heavy burden already carried. To put this pay hike in its proper perspective, one need only note that Class I railroads reported profits of $578 million last year. Compare this with the average of $789 million net income of Class I roads for the period 1950-58.

Work Rules Hassle Ahead

It would be a mistake to assume that the labor problem has been disposed of until November, 1961. The real fire and fury is just about to start since the railroads have proposed certain changes in the "work rules" which they hope will offset the added expense of the higher payscale. "Featherbedding," a term quite familiar to the public after the massive public relations job by the rails, is costing the industry some $500 million annually according to fairly conservative estimates. Probably the classic example of the "make-work" rules is the requirement that a fireman ride in the cab of a diesel locomotive, which, of course, has no fire to tend. Rail managements hope to eliminate this useless man from freight trains as well as to update other archaic and costly rules. Some observers believe the time is ripe for at least minor revisions in the rules; others are not quite as optimistic, considering that the steel settlement skirted the issue. In any case, the final outcome of the work rules hassle is not likely to be seen until after election day in November.

Second Half Prospects

In projecting the second half outlook, it is necessary first to take a hard look at the economy and see which way the wind is blowing for the heavy industries served by the carriers.

Autos and Steel. The stimulus of automobile ordering for 1961 models will play an important role in strengthening the steel operating rate, which should begin to firm late July or early in August, and be on the way up as the year draws to a close.

The industry should pour steel at about 75% of capacity in the third quarter, and perhaps improve this pace by three or four points in the last three months, producing about 115 billion tons for the year as a whole. This would be a shade below the record 117 million tons produced in 1955.

Coal production is likely to perk up also, reflecting larger orders from the steel industry here as well as from abroad. It is interesting to note in this regard that Japan is fast becoming an important buyer of American coal for its steel mills. Norfolk & Western, now moving a good deal of this Far East business, expects larger coal shipments in the years ahead, since capacity of the Japanese steel mills will be expanded materially. Aside from the steel demand for bituminous coal, utility consumption is expected to be higher in the second half; thus, the overall pattern for this important source of railroad traffic, coal, is favorably defined for the balance of the year.

In addition to these traffic factors, a reasonably heavy grain movement is a good possibility in the second half. At this advanced stage of the growing season, the crop looks quite good, while storage space appears to be relatively limited in certain important areas. All factors considered, the ingredients necessary to support a good level of railroad carloadings in the second half of 1960 are apparently in sight.

Profit Squeeze Ahead

While the traffic picture for the period ahead has certain recognizable signs, the outlook with regard to profit margins is quite hazy. With higher wages ahead (the contracts already settled call for a 2% hike July 1, 1960 and 2% more on March 1, 1961), it is difficult to see how the industry can avoid experiencing another contraction of its margins. Of course, not all roads will suffer equally from the larger wage bill; the coal roads and most Western rails will barely notice the impact of the larger expense. However, the Eastern segment of the industry, known for its high wage ratios, will be hard pressed to offset the increased burden.

The earnings picture of the industry will parallel that of profit margins. While the group as a whole may experience a disappointing earnings performance in the second half of 1960, followers of the Eastern roads may be examining poor monthly statements, but shareholders of the Western carriers could be reasonably satisfied with operating results. In fact, given an exceptionally heavy movement of Government stored grain (always a possibility but hardly predictable), the Western roads in the second half of this year, could run well ahead

Statistical Position of Leading Railroads

	Gross Revenues 1st 4 months 1959 (Millions)	Gross Revenues 1st 4 months 1960 (Millions)	Percentage Change %	Operating Ratio Full Year 1959	Operating Ratio 1st 4 Months 1960	Net Per Share * Full Year 1959	Net Per Share * 1st 4 Months 1960	Indicated Div. 1960**	Recent Price	Div. Yield
Atchison, Top. & Santa Fe	$204.5	$203.8	— .3%	75.3%	76.3%	$2.45	$ .61	$1.45	23	6.3%
Atlantic Coast Line	57.4	59.4	+3.4	80.7	77.7	4.79	1.94	2.50[2]	52	4.8
Baltimore & Ohio	129.0	133.4	+3.2	81.2	83.8	4.87	d.68	1.50	35	4.2
Chesapeake & Ohio	148.5[3]	146.0[3]	—1.6[3]	74.5	74.4[3]	5.60	2.07[3]	4.00	62	6.4
Chic., Milw., St. P. & Pac.	77.5	72.9	—6.0	82.2	85.2	1.55	d1.54	1.50	21	7.1
Chicago & Northwestern	69.7	64.9	—6.9	85.7	88.4	d9.18	d6.46	—	19	—
Chic., Rock Island & Pac.	73.8	69.9	—5.3	78.9	79.3	2.84	.72	1.60	25	6.4
Del. & Hudson	22.7	22.3	—1.9	76.6[1]	78.6[1]	2.04	.44	2.00	23	8.6
Dela., Lack. & West.	23.9	24.0	—	87.6	90.1	d2.65	d1.54	—	7	—
Denver & Rio Grande W.	24.6	25.7	+4.4	67.1	65.8	1.37	.45	1.00	16	6.2
Erie	51.8	53.8	+3.8	85.0	81.4	d2.58	d .13	—	9	—
Great Northern Rwy.	74.2	72.5	—2.3	77.4	83.6	4.35	.59	3.00	47	6.1
Gulf, Mobile & Ohio	27.3	26.0	—4.5	76.4	79.8	2.17	.57	2.00	25	8.0
Illinois Central	88.3	87.4	—1.0	78.4	81.7	4.83	1.03	2.00	37	5.4
Kansas City Southern Sys.	23.4	23.4	—	58.0	60.1	5.82	3.01	4.00	73	5.4
Lehigh Valley	18.8	18.7	— .8	89.1	88.4	d1.59	d .42	—	6	—
Louisville & Nashville	76.9	77.3	+ .5	79.6	79.3	5.50	1.55	5.00	65	7.6

*—Before funds.
d—Deficit.
N.A.—Not available.
**—Based on latest dividend reports.

1—Delaware & Hudson R.R.
2—Plus 1 share Alico Land Development Co.
3—5 months to May 31.

Atchison, Top. & Santa Fe: Possessed with unusually favorable operating characteristics, such as long average haul, relatively low terminal expenses and no commuter problem this company is one of the strongest in its industry. Non-rail interests are large and growing. **A1**

Atlantic Coast Line: Located in a fast growing region, this carrier has enjoyed a fair degree of revenue growth. Merger with the Seaboard has progressed to the point that terms have been announced. **B1**

Baltimore & Ohio: Financial problems have tied management's hands for some time, but the way is now clear to concentrate on the job of improving operating efficiency. If the proposed merger with the C.&O. can ever be consummated, the strong financial and managerial resources of the latter company will be helpful in the task of squeezing bigger profits out of the large gross per share. **C1**

Chesapeake & Ohio: While heavily dependent upon the fortunes of the coal industry, which have been none-too-bright recently, C.&O. has nonetheless managed to compile a record of solid earning power. Finances are exceptionally strong. **B1**

Chi., Milw., St. P. & Pac.: Operations of this transcontinental carrier are drastically affected by seasonal factors. While not in as strong a position as its competition, the company's shares have some attraction as a long-range speculation on eventual growth of earning power. **C1**

Chicago & North Western: A vastly different and better system since new management took over, this carrier could be on the verge of demonstrating a fair degree of earning power. However, unless a moderate to heavy grain movement develops in the second half of 1960, speculators in this situation may have to exercise patience. **C1**

Chi. Rock Island & Pac.: Operating in a favorable service area, this road has been expanding service in an effort to broaden its traffic base. Eventual success should be seen along these lines and a higher level of earning power is a good possibility. **B1**

Del. & Hudson: Long-run outlook for this Eastern carrier is quite obscure. An exceptionally strong financial position lends support to the dividend for some time ahead, despite rather slim coverage. **C1**

Del. Lack. & West: Awaiting the final nod from the ICC on the proposed merger with the Erie, this line is having a difficult time in 1960. While some savings will undoubtedly be realized when the marriage takes place, the new system is likely to be faced with stiff competition. **D3**

Denver & Rio Grande West: The excellent post-war record of this bridge-line carrier is likely to be duplicated over the long run. However, the immediate outlook is one of only moderate profits improvement. **B2**

Erie: Eventual merger with the Lackawanna should strengthen this once-strong Eastern trunk line. However, since the two individual merger partners have had sorry revenue trends in the postwar period, it remains to be seen whether the unified system will be any different. **D4**

Great Northern: Prospects favor eventual stronger industrial development in much of the northwestern state area served by this company. However, agricultural and iron are traffic, will remains quite important for some time ahead. In view of the solid core of earning power and the possibility of a merger with Northern Pacific, the shares have some appeal. **B1**

Gulf, Mobile & Ohio: This company has steadily lost competitive position in recent years to the barges operating in its territory. Strong finances may permit continuation of dividends at $0.50 quarterly even though earnings will be on the slim side in 1960. **C1**

Illinois Central: While earning power of this system is considerably lower now than it was a few years ago, the carrier can still be expected to show an impressive profit year in and year out. Barge competition remains quite severe. **B1**

Kansas City Southern: Just like old man river, this company keeps rolling along, showing relatively level profits, regardless of the economic climate. A long awaited increase in the common dividend could be seen in late 1960. **B1**

Lehigh Valley: Fundamentally this carrier is in a poor position, with a declining revenue trend, heavy terminal expense and a large wage factor. Speculative attraction in this situation centers around the possibility that it may be absorbed in the current merger fever gripping the railroad industry. **D4**

Louisville & Nashville: The competitive position of the major soft coal carrier has weakened steadily in recent years, reflecting intense barge competition in its service area. The annual dividend has not had impressive earnings coverage since 1956. **C1**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unatractive.
1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lowes. 4—Lower earnings trend.

of results for the corresponding 1959 period.

Competitive Fight Ahead

Turning now to the railroad industry's basic position in the economy, a considerable change for the better could be in the making, although still a long way off at this writing. Over the years the trucks have become increasingly successful in enlarging their share of the total transportation market, elbowing aside the once dominant railroads in the process. Over the last twenty years the rail portion of total intercity freight has fallen from 61.3% in 1940 to 45.6% last year. Truck participation has risen from 10% to 21.5% over the same span. But the picture could change.

Over the last few years the railroads have been counterattacking in the struggle with their competitive foes. With greater freedom to price their service attractively (the outcome of the Transportation Act of 1958), the rails have been vigorously filing rate adjustments in an effort to retain and even recover traffic from the highways and waterways. While there is little tangible evidence yet that any widescale success is being seen along the lines of retrieving lost traffic, many in the industry profess to see signs that the railroads are improving their basic competitive position. If the industry can hold any rate increases to modest proportions over the next few years, a good deal of traffic which moves on price alone could gravitate back to the rails, since higher truck rates appear inevitable. In fact, the latter carriers are seeking a 5% rate hike right now.

Merger Movement Growing

While the fight between the railroads and the

Statistical Position of Leading Railroads (Continued)

	Gross Revenues 1st 4 months 1959 (Millions)	Gross Revenues 1st 4 months 1960 (Millions)	Percentage Change %	Operating Ratio Full Year 1959	Operating Ratio 1st 4 Months 1960	Net Per Share * Full Year 1959	Net Per Share * 1st 4 Months 1960	Indicated Div. 1960**	Recent Price	Div. Yield
Missouri-Kan.-Tex.	$ 19.9	$ 18.4	—7.6%	75.2%	N.A.%	$d2.02	$N.A.	$—	4	—
Missouri Pacific "A"	98.8	98.3	— .4	76.1	75.6	8.31	2.23	2.40	42	5.7
New York Central	232.8	235.0	+ .9	83.7	83.1	1.29	.70	1.00	23	4.3
N. Y. Chicago & St. Louis	51.0	51.7	+1.3	71.1	69.9	3.19	1.00	2.00	37	5.4
N. Y., N. H. & Hart.	49.0	46.4	—5.1	86.6	88.2	d12.29	d4.83	—	4	—
Norfolk & Western	84.6	84.4	—	62.2	59.4	8.10	2.62	5.00	100	5.0
Northern Pacific	55.8	55.7	—	79.7	87.9	3.97	.61	2.20	42	5.2
Pennsylvania	296.5	308.3	+4.0	82.0	81.8	.55	d .06	.25	14	1.7
Reading	36.1	38.0	+4.9	84.3	80.9	d .68	d .24	—	13	—
St. Louis-San Francisco	43.3	43.7	+1.0	78.3	78.4	2.83	.87	1.00	18	5.5
Seaboard Air Line	55.5	56.5	+1.8	75.7	74.4	3.52	1.21	2.00	36	5.5
Southern Pacific Sys.	221.8	222.7	+ .4	78.2	76.4	2.57	.73	1.12	20	5.6
Southern Railway	89.5	89.7	—	67.6	69.1	4.65	1.24	2.80	48	5.8
Union Pacific	166.7	160.9	—3.4	73.4	74.5	2.71	.75	1.60	26	6.1
Western Pacific	17.7	17.1	—3.2	77.9	81.6	2.24	.39	1.00	18	5.5

*—Before funds.
d—Deficit.
N.A.—Not available.
**—Based on latest dividend reports.

1—Delaware & Hudson R.R.
2—Plus 1 share Alico Land Development Co.
3—5 months to May 31.

Missouri-Kansas-Texas: Considerable progress has been made in restoring the Katy's competitive position. However, until the patient can be pronounced cured, even greater deeds will have to be worked by management. **D2**

Missouri Pacific "A": Mississippi River Fuel now has an important interest in this carrier. Funds to be available from the Texas & Pacific subsidiary may be of great help in increasing available earnings on the Mopac Class A stock. **C1**

New York Central: Management has taken large strides in an effort to restore the earning power of this large Eastern system. However, the payoff from an extensive property rehabilitation program may still be several years away. **C1**

N. Y., Chicago & St. Louis: An agreement to merge with the Norfolk & Western has finally resulted from extensive discussions with the latter road although consummation is still far away. However, New York Central could conceivably block the deal if it cannot find a merger partner of its own. **B1**

N. Y., N. H. & Hart: This high-cost carrier finds itself in a precarious position. Losses continue to mount while the cash is slowly dwindling. With higher payroll expense now facing the carrier, the financial strain will intensify in the months ahead. **D4**

Norfolk & Western: Financially strong and highly efficient, this coal-carrying line is the spark behind the merger movement now sweeping the railroad industry. Union with the Nickel Plate would provide excellent traffic diversification, if it can be accomplished. Long run prospects for N. & W. are above average for a rail. **A1**

Northern Pacific: Paced by the expansion of its oil and gas income, Nipper has established a good record of profits gains in recent years. Railroad operation, now only average at best, could be bolstered by merger with the Great Northern. In any case, long-range outlook for the road is excellent. **B1**

Pennsylvania: Still the king-pin of the industry in terms of revenues, the Pennsy is down near the bottom of the list in terms of profitability. Owing to its stock interest in the agressive Norfolk & Western, Pennsy may eventually find itself in a better position if the pending NFK-NKP merger can be pushed through. **C1**

Reading: Formerly a high earner, this railroad has had a difficult time of it in recent years; no basic improvement is in sight. Finances are not strong and regular common payments are not yet in prospect. **D1**

St. Louis-San Francisco: Basic values in this situation center around controlling interest in the Central of Georgia and New Mexico and Arizona Land Co. A fair profit rebound is currently in progress. **C1**

Seaboard Air Line: Merger with the Atlantic Coast Line is the big news here. Assuming the two roads are finally put together, economies of a large scale should be seen. **B1**

Southern Pacific: Although Sopac serves a fast growing region and revenue growth of the railroad itself has been above par, earnings from this end of the business have not been impressive. Non-rail interests, such as natural resources, a pipeline, trucking subsidiaries and other rails, have provided the bulk of system earnings growth in recent years. **B1**

Southern Railway: A highly efficient system blanketing the fast growing southland this company has both favorable near and longer-range prospects. **A1**

Union Pacific: This blue-chip railroad has lost some of its sheen in recent years, owing to an adverse trend in important oil and gas income. Long-range prospects remain quite favorable, however, and holdings can be retained for eventual resumption of the company's growth trend. **A2**

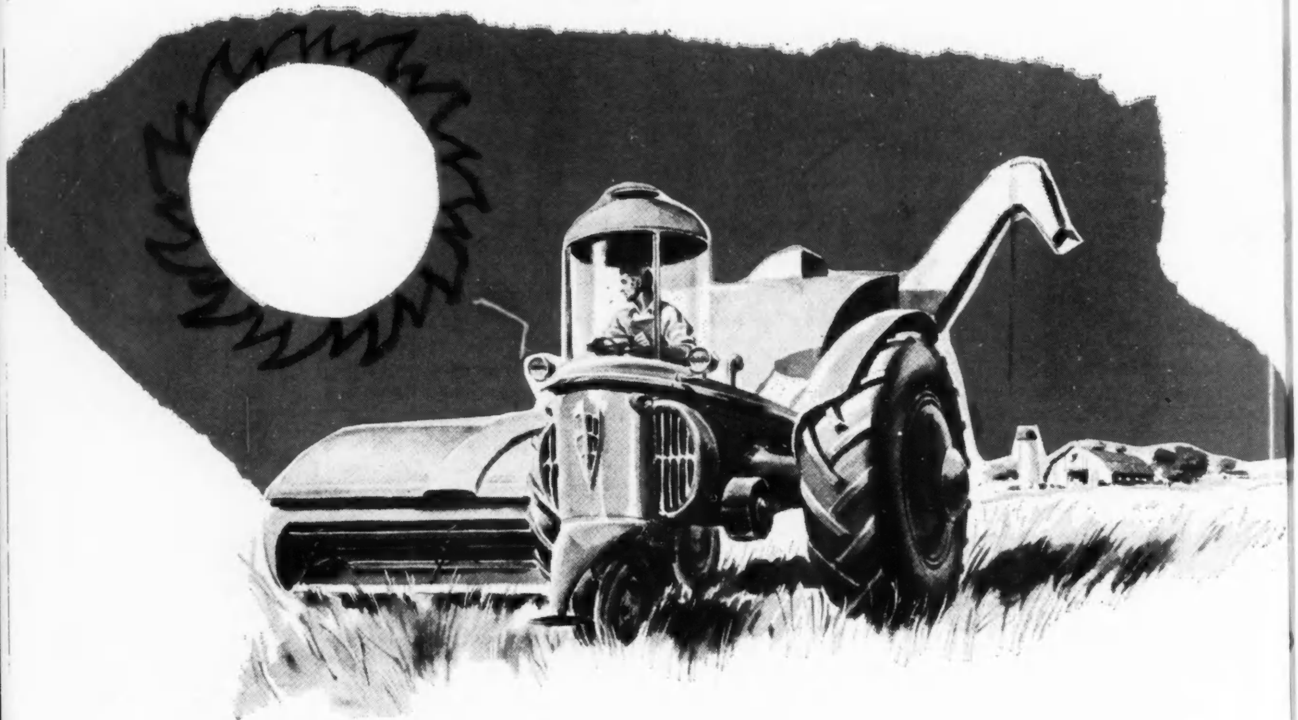
Western Pacific: Serving the fast-growing West coast area, this company has experienced a better-than-average revenue growth trend of its own. The picture over the longer run suggests that this favorable trend will continue. **B2**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unatractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lowes. 4—Lower earnings trend.

trucks is obviously of basic importance as far as the long-run outlook is concerned, merger developments are likely to continue in the limelight, relegating the basic struggle to the background. The situation is quite confused at the moment, with New York Central coming back to the center of the stage after playing an uncharacteristic spear-carrying role. Whether Central will block the entire merger movement in the industry or whether it will become part of the C. & O.–B. & O. proposed union is anybody's guess. It is quite conceivable that the merger movement could lose its momentum and fall apart, which is perhaps one explanation for the poor price action of those company's stocks where terms have already been announced.

Piggyback and Diversification to the Rescue?

Aside from the merger craze, it is a safe bet that the piggyback end of the business will become a more significant aspect of the overall railroad picture before too long. Now only about 2% of rail traffic, piggyback is still in its infancy. When more operating performance is in the books, such as types of traffic costs, etc., an increase in some piggyback rates is a possibility. In any case, it is only a matter of time before Trailer-On-Flat-Car service becomes a significant contributor to railroad earnings. On another front, the railroads are still fighting for permission to diversify into other forms of transportation. While there is little hope that the necessary legislation will be forthcoming from this session of Congress, the logical arguments in favor of permitting diversified transportation companies may rally public opinion to the railroads' corner. The outcome of pending acquisition of a barge company by Southern Pacific and *(Please turn to page 439)*



AGRICULTURAL MACHINERY AT PEAK?

By DONALD G. PAISH

► With special appraisals of the 3 major companies in the industry — Pertinent comments and earnings-dividend outlook for the various companies looking through 1960 to 1961

Although, prior to World War II, annual farm income was approximately indicative of the size of the market for tractors and other farm equipment, it has been demonstrated that, with the improved financial position of the professional farmer and the larger acreage per farm, the effective demand for labor saving machinery can no longer be measured in terms of annual or periodic farm purchasing power.

The average professional farmer with a substantial equity in his property (and this category would include a very high percentage of the farm equipment market in the United States) is more likely to base his purchases on the price and supply of labor, the condition of his present equipment with regard to state of repair and obsolescence, and the comparative efficiency of the new models. Other considerations might include the apparent direction of the general economic trend, interest rates and their possible trend, local and national fiscal policies, and the market for his product, including the market provided by governmental agencies. In borderline cases only, would this type of farmer give first consideration either to the net farm income for the year or the size of his government check.

Since the end of the war, the need for farm machinery has been accentuated by a constant rise in the wage-levels of competing markets as well as by the accumulation of demand for equipment which, aided by a basic improvement in the farmers' financial position, culminated in the exaggerated boom in manufacturers' sales lasting from 1947 into the early 1950's.

The subsequent contraction in demand reached its depth in 1956, although the fact was somewhat obscured by the general rise in costs and prices. The basic postwar trend, however, based on the industry's annual sales appears to show a relationship to the upward trend in the hourly wages paid common labor.

In the 1947-59 period, domestic shipments of farm equipment manufacturers increased by an average of approximately five percent annually and it would appear reasonable to suppose that the annual or periodic deviations from this trend will become less severe and, given a protracted period of peace and

a fair measure of industrial prosperity, may become of comparatively less concern, as an investment consideration.

Moreover, although the establishment of new trading areas in Europe presents an indeterminate factor, the foreign sales of U. S. farm equipment companies are expected, for some years ahead, to rise at a relatively faster rate than their domestic sales.

Thus, under relatively favorable general economic conditions in the United States and abroad the dollar sales of the farm equipment divisions of the leading United States manufacturers should show a satisfactory rate of growth, despite year to year fluctuations.

The Near Term Outlook

At the beginning of 1958 it appeared likely that the degree of sales recovery in 1958 and 1959 would be reasonably moderate but would be accompanied by some improvement of profit margins. However, aggressive sales campaigns were waged by several of the smaller companies as well as by the industry leaders. These efforts were helped by the introduction of new and improved machines as well as by the inauguration of new credit techniques. Thus, sales and earnings for a number of companies were brought to heights as surprising, we suspect, to the respective managements as to the investing public. There is now little doubt that during these two years the market was, to some extent, oversold. Some dealers were left with surplus inventory, and some of their customers had bought beyond their actual needs. However, for the industry as a whole, these conditions were not over-serious as is being demonstrated by published sales figures for the first six months of the present fiscal year.

Considering the exceptionally poor weather conditions prevailing in the early spring, these figures were reasonably encouraging. Nevertheless, even a slight shrinkage in effective demand is enough to create the type of competition which deters managements from raising prices. Consequently profit margins suffered from increased costs of labor, and of some raw materials and purchased parts. Foreign sales generally showed improvement. Sales of construction machinery divisions were affected both by the weather conditions and by a lag in the placement of construction contracts. Latest available figures now show a definite improvement in the latter respect.

Present indications point to the possibility of some improvement in both sales and profit margins in the final half of 1960, as compared with those of the first half of the current fiscal year. Nevertheless, most companies in the industry look for profits below last year's, although at satisfactory levels with respect to established dividend rates. Leading managements are spending large sums for the purpose of improving efficiency, and for the production of new items for their respective lines of equipment. The initiation of these costly programs by managements grown wise in the ways of the farm equipment market is not the hallmark of a decaying industry, but of one which expects to garner a continuing harvest for the stockholders.

Deere and Company—Well-known as the most efficient producer of farm machinery in the United States, Deere has, in recent years, added construction and logging tractors and other machinery to its established lines. It has also added plants located abroad to supplement the export of its equipment to the now burgeoning foreign markets.

While not as diversified as some of its major competitors, Deere's earnings record has been an enviable one. Considerable sums spent annually on research and development, as well as on plant expansion and improvement, have borne fruit in the widening of its lines of products and in constantly improving the performance and capacity of its existing lines.

Sound Planning in Plant Locations

North American assembly plants are strategically located in the midwest, in California, and in Ontario, Canada. An 85 percent owned German subsidiary, although not yet on a self-sustaining production schedule, helps supply the European market. Latin America is served by plants in Mexico and Argentina which are operated by John Deere Intercontinental. S.A. World-wide, employees number over 33,000 with nearly 26,000 located in the United States.

It is important to note in connection with the operations of the foreign subsidiaries and of the wholly owned John Deere Credit Company, that any losses sustained by them are charged against income, while profits earned are not taken into account. Thus the current losses of the German subsidiary and the reported losses of the credit subsidiary, the latter magnified by another instance of conservative accounting, are deducted from earnings. This not only presents a very conservative picture of the Company's profits, but also adds a further hazard to any attempt to project annual earnings in advance.

Net income for the fiscal year ended October 31, 1959, as reported, amounted to \$48.5 million, equal to \$7.23 per share on the one-class of stock. The net profit margin was almost 9 percent of sales. In the first half of 1960, ending April 30, net income of \$8.3 million, equal to \$1.20 per share, represented a profit margin of only 3.5 percent. The sales figure itself was only 15 percent below that of the corresponding period in 1959, but net income was down 68 percent from \$3.75 per share a year ago. This drastic decline in profits was due in great part to expenses for new products.

The second half of the fiscal year can present a somewhat better picture. Extraordinary plant expenses will be reduced and, as previously noted, the demand for farm equipment in the United States may show some improvement. However, the management has recently predicted that earnings for the 1960 fiscal year will be substantially under those of fiscal 1959.

At the current price, the stock yields about 4.5% on the \$2.00 dividend, which can be viewed as reasonably secure.

International Harvester—The manufacture of motor trucks constitutes the largest single activity of this company, with farm equipment second and construction equipment, including heavy track-laying tractors, third. Normally, Harvester is the second largest United States farm equipment manufacturer, but this year it is expected to report higher sales than its principle competitor. Harvester also oper-

Position of Leading Farm Equipment Stocks

	Full Years: Net Sales 1958 (Millions)	Net Sales 1959 (Millions)	Net Profit Margin 1958 %	Net Profit Margin 1959 %	Net Earnings Per Share 1958	Net Earnings Per Share 1959	Cash Earnings Per Share 1959	Div. Per Share 1960 *	1st Quarter Earned Per Share 1959	1st Quarter Earned Per Share 1960	Price Range 1959-60	Recent Price	Div. Yield
ALLIS-CHALMERS W.C.† '58–$263.5; '59–$290.9	$531.9	$539.6	3.5%	4.2%	$2.34	$2.47	$3.50	$1.50	$ .43	$ .28	40 -26⅞	29	5.1%
CASE J. I. W.C.† '58–$65.3; '59–$59.0	177.9	200.5	2.4	3.1	1.12	1.75	3.93	—	.82[3]	d1.79[3]	25⅝-10⅞	11	—
CATERPILLAR TRACTOR W.C.† '58–$174.7; '59–$166.0	585.1	742.3	5.5	6.2	1.16	1.68	2.75	1.00	.61[4]	.46[4]	40⅜-25⅝	27	3.7
DEERE & CO. W.C.† '58–$329.8; '59–$319.4	472.6	542.5	8.8	8.9	6.06	7.23	9.40	2.00[1]	3.75[3]	1.20[3]	68¼-38⅛	44	4.5
INTER. HARVESTER W.C.† '58–$420.3; '59–$467.1	1,098.3	1,363.1	3.9	5.6	2.69	5.10	8.47	2.40	2.06[3]	1.88[3]	57⅜-39⅝	45	5.3
MASSEY-FERGUSON, LTD. W.C.† '58–$153.5; '59–$174.0	420.2	475.5	3.1	4.4	1.25	1.65	2.76	.40	1.03[3]	.55[3]	17⅞- 9⅛	10	4.0
MINN.-MOLINE W.C.† '58–$37.9; '59–$40.8	53.6	53.7	d3.2	6.0	d2.09	3.16	4.90	—	1.45[3]	1.04[3]	29¼-17¼	21	—
MYERS (F. E.) & BROS. W.C.† '58–$6.3; '59–$6.7	12.2	13.6	6.6	6.5	4.11	4.53	5.98	1.20[2]	.66[5]	1.17[5]	58¼-39½	58	—
OLIVER CORP. W.C.† '58–$65.6; '59–$66.4	113.3	114.6	1.4	3.1	.63	1.39	2.66	.60	.53[3]	.20[3]	26⅛-14⅛	19	3.1

W.C.—Working capital.
*—Based on latest dividend rates.
d—Deficit.
†—In millions of dollars.

1—Plus stock.
2—5/24/60 stockholders approved sale of assets equal to $60 a share. 6/24/60 Myers will made a liquidating dividend of $55 a share.

3—6 months ended April 30.
4—4 months ended April 30.
5—6 months ended March 31.

ates its own steel plant, with the output both sold to others and used in its own plants. Twine and fibre production constitutes a minor but substantial contribution to total sales. Altogether, Harvester produces and markets some 1,166 products, not including attachments; service parts number some 236,000 items.

12 Subsidiaries Abroad

These figures do not include the products of the 12 manufacturing subsidiaries located throughout the Free World.

For the fiscal year ending October 31, 1959, Harvester reported consolidated sales of $1,363 million and net income of $76.4 million, equal after preferred dividends to $5.10 per share of common stock. The latter figure does not include the undistributed equity in the earnings of the unconsolidated subsidiaries totalling around $10.6 million, equal to $0.76 per share.

The improvement in truck sales contributed almost twice as much to the increase in total sales, compared with previous year's results as did the farm equipment division. The effects of a strike, which caused a small loss in the first fiscal quarter, were partially offset by exceptionally good earnings in the second quarter.

For the first 6 months of the current fiscal year, sales were up 16 percent over the same period in 1959 and constituted a new record for this reporting period. Net income was down to $1.88 per share from the $2.06 registered in the 1959 half-year. Sales of motor trucks were well ahead of last year's. However, as the increase was principally in the lighter trucks carrying a lower margin, profits were not proportionately increased. Nevertheless, the management expects the over-all sale of trucks to continue at a satisfactory level through the remainder of the year.

Sales of farm equipment have not been quite up to earlier expectations. First half sales were up because of the strike in the first quarter of 1959. While some pick-up may be experienced in this category the management does not expect 1960 sales of farm equipment to equal those of 1959.

Harvester has found that the domestic demand for construction equipment has lacked steam so far this year. The anticipated increase in foreign sales this year may not quite make up the expected decline in domestic sales.

No major facilities are on the Company's drawing boards, nor is any major diversification in the wind, but the management is looking forward to spending some $50 millions annually for the next two or three years for improving the efficiency of its plants and for tooling for new products within the traditional fields.

The newly acquired Solar Aircraft subsidiary is not expected to contribute to earnings for the next year or two. Its acquisition was due to a desire to broaden Harvester's research activities in the direction of turbine engine development, metallurgy and electronics.

Harvester's total sales in the current fiscal year are not expected to vary greatly from those of 1959, since the increase from the sale of trucks is expected to offset the decline in farm equipment. The management has estimated that earnings this year will be slightly under *(Please turn to page 440)*

MEAT PACKERS
Showing Trend Toward More Profitable Operations

By WILLIAM L. WHITING

► **But better profit margins essential for higher investment rating**
► **Which companies are in the best speculative-investment position today?**

FAR-REACHING economic changes, notably in processing techniques and marketing patterns, have strengthened large meat packing companies to a degree little appreciated by the investing public. Progress has been so striking in recent years, that the time seems approaching when higher appraisals of earning power will be warranted because cyclical influences have been minimized.

Plant modernization and decentralization of processing activities have made possible enormous savings in labor and distribution costs—not to mention benefits of reduction in investment in outmoded facilities. Working forces have been reduced as much as 35 per cent in at least one instance and, on the average, the large packers probably have reduced payrolls by 20 per cent or more. Shipping charges have been trimmed extensively by closing of large plants in metropolitan centers and replacing them with efficient new facilities nearer areas where livestock is grown.

Of greater significance than the revolution in processing operations, however, is the fact that packers have been able to hold down selling prices and still make modest profits even at less than 1 per cent on sales turnover. Basically, meat prices have risen comparatively little in the last decade. This means that in terms of steaks, pork chops, stews and the like, the working man's purchasing power has soared. Personal income has climbed steadily from year to year as wage rates have been adjusted upward. The result is that virtually no family in the country now needs to go without meat at mealtimes if this part of the menu is desired. Thus, the change in economic conditions enabling breadwinners in the nation's families to fatten pay envelopes has redounded to the benefit of packers by minimizing cyclical influences.

The sweeping readjustment in operating pro-

Statistical Data on Leading Meat Packers

Stock and Rating	Net Sales 1958 (Millions)	Net Sales 1959 (Millions)	Net Profit Margin 1958 %	Net Profit Margin 1959 %	Net Earnings Per Share 1958	Net Earnings Per Share 1959	Cash Earnings Per Share 1959	Div. Per Share 1960 *	1st Quarter Earned Per Share 1959	1st Quarter Earned Per Share 1960	Price Range 1959-60	Recent Price	Div. Yield
	Full Years												
ARMOUR & Co.—A1 W.C.† '58–$179.7; '9–$190.0	$1,850.4[1]	$1,869.8[1]	.3%	.7%	$1.08[1]	$2.73[1]	$5.22[1]	$1.20[5]	$ .88[7]	$1.35[7]	42⅜-29½	34	3.5%
CUDAHY PACKING—C2 W.C.† '58–$18.6; '59–$20.0	369.0[1]	354.1[1]	.7	.7	1.46[1]	1.43[1]	2.71[1]	—	.21[7]	.33[7]	14½- 9	10	—
HORMEL, G.A. & Co.—B2 W.C.† '58–$24.6; '59–$28.1	360.9[1]	401.7[1]	.8	1.4	2.50[1]	5.11[1]	7.11[1]	1.40	.99[7]	1.62[7]	39½-30⅝	31	4.5
HYGRADE FOOD PROD.—B1 W.C.† '58–$12.5; '59–$14.0	411.4[1]	414.2[1]	.3	.6	2.39[1]	4.50[1]	7.74[1]	1.00[6]	1.26[8]	2.48[8]	32 -25¾	29	3.4
INTERNAT. PACKERS—D2 W.C.† '58–$40.9; '59–$45.7	53.6[2]	66.3[3]	4.1[4]	5.4[4]	.79[4]	1.30[4]	1.30[4]	.60	.77[9]	N.A.	21⅝-13¾	16	3.7
MORRELL, JOHN & Co.—B1 W.C.† '58–$19.3; '59–$24.4	401.6[1]	436.3[1]	.5	1.4	2.24	5.68	8.10	.80[6]	1.67[7]	2.04[7]	59⅞-31⅜	34	2.3
SWIFT & Co.—A1 W.C.† '58–$212.3; '59–$219.8	2,645.3[1]	2,475.4[1]	.3	.7	1.70[1]	3.20[1]	6.95[1]	1.85	1.14[7]	1.54[7]	51⅛-42⅝	44	4.2
WILSON & Co.—B2 W.C.† '58–$64.5; '59–$68.1	683.6[1]	655.5[1]	1.1	1.4	3.10[1]	3.88[1]	5.71[1]	1.60	1.57[7]	d.48[7]	43 -32¾	38	4.2

W.C.—Working capital.
*—Based on latest div. rates.
N.A.—Not available.
d—Deficit.
†—In millions of dollars.

1—Year ended October 31.
2—Parent Co. only; consol. sales were $377.0 millions.
3—Parent Co. only; consol. sales were $400.2 millions.
4—Parent Co. only.

5—Plus 1/40 sh. of Int'l. Packers Ltd.
6—Plus stock.
7—6 months ended April 30.
8—24 months ended 4/18/59 & 4/16/60.
9—Parent Co.; 6 mos. ended June 30.

RATING KEY:
A—Best grade. B—Good grade.
C—Speculative. D—Unattractive.
1—Improved earnings trend. 2—Sustained earnings trend.
3—Earnings up from the lows. 4—Lower earnings trend.

cedures, dictated in part by rising labor costs—including shipping expenses—and in part by the shift in marketing methods caused by growth of the self-service supermarket and improved refrigeration, still has further to proceed. Benefits have been realized only in the last two or three years. Much more remains to be done by the packers in concentrating processing activities near sources of livestock supply, and improving packaging materials for better distribution of finished products. Volume undoubtedly can be enlarged with little increase in the number of employees needed.

Restudy of Anti-trust Restrictions on Diversification

As significance of the changes is better understood, it seems quite possible that stocks of the stronger packers will command wider respect among investors. Their investment standing well may be raised also by benefits of litigation over the 40-year-old consent decree under which the packers agreed to withdraw from certain business activities not related to processing and distributing of meat products. The anti-trust suit ended with the agreement to dispose of non-related lines. A few years ago, however, several packers sought to re-open the case on the ground that economic developments in the intervening years justify a clarification of the ruling, which the packers feel restrict their efforts in diversifying operations.

The case has reached a United States District Court in Chicago and in due course may be carried to the Supreme Court for final adjudication. Some Chicago observers are hopeful of a favorable resolution of the dispute, so that packers might be enabled to improve their efficiency by processing other types of food products that could be distributed in the same marketing channels as used for meat. ***A successful outcome of the litigation would hold promise of strengthening the packers' competitive position and of further minimizing cyclical forces that have caused investors in the past to shun equities in the packinghouse group.***

Aim of Greater Efficiency Between Producers and Packers

In an effort to achieve economies in other areas and thereby improve profit margins, the industry has initiated a program aimed at bettering coordination between livestock producers and the packers so as to avoid periods of congestion as well as scarcity of supplies. One of the industry's major problems has been to adjust "production" on the range and the farm to consumer requirements. Unlike representative manufacturers, the processors have no control over the amount of raw material—that is, cattle, sheep and hogs—being produced which they must endeavor to prepare for consumption.

History shows that in periods when livestock supplies were plentiful, prices paid to the growers generally were on the low side and margins for the packers were satisfactory. On the other hand, at times when adverse weather or other causes kept the flow to market below normal, prices rose in reflecting keen competition, with the result that the farmer profited handsomely and the packer experienced unusually low margins.

Considerable progress has been made in the last decade or two in educating farmers and in opening communication channels between processor and packer through the radio, farm publications, newspapers and other publications, to broadcast marketing information so that proper provision can be made in processing plants for incoming shipments from the farm. In earlier years the industry was compelled to expand operations to care for seasonal peaks in livestock shipments. Large slaughtering facilities were used to capacity only at times when marketings were heavy. Since they occupied costly city acreage, the plants were expensive to maintain on a standby basis.

In recent years the big packers have closed obsolete plants in the Chicago area, and have replaced them with modern facilities that can be operated more efficiently. Faster methods have been devised for curing meats to speed the process between slaughtering and marketing. Meats now may be prepared to remain fresh for longer periods, reducing losses from spoilage. Much more progress in better techniques can be achieved in this area to contribute to better margins and to stability of operations. The transition to speedier and more efficient distribution can add to profits.

Better Profit Margin Essential For Higher Investment Rating

Any worthwhile improvement in profit margins would justify higher earnings appraisals, for the meat packing industry has been handicapped with one of the narrowest margins of any major segment of the economy. Statistics show that a return on sales of 1 per cent or less has been the rule, whereas in food processing generally, a return of 4 per cent or more is considered reasonable. In chemical as well as in petroleum returns of 8 per cent or more are shown to be average. Since, meat processing is one of the largest single industries, with sales ranging above $13 billion annually, even a moderate rise in margins could prove significant.

Decentralization tactics adopted by industry leaders may set in motion changes bringing about better results. Establishment of regional packing plants, introducing modern techniques and speedier handling of livestock, seems likely to effectively meet competition from less efficient local packers and gradually strengthen competitive positions of the majors. If at the same time, diversification in allied lines can be legalized, the "big four" would gain a higher standing among investment managers.

Intense competition, fostered by attacks on "big business" and monopolistic practices in generations past, has contributed to unsatisfactory margins in many areas. Because of the relative ease with which packing plants could be set up in the past, and the comparatively modest capital required, hundreds of small competitors have engaged in processing meats. ***With the benefit of technical research, the leaders have gained distinct advantages in recent years, however, and smaller concerns have sold out or have been liquidated. This trend seems likely to give the major processors a better control over supplies moving to market.***

For a closer study of the industry, it will be well to examine current economic conditions and prospects for individual companies. Observations and investment ratings on the leading publicly-owned companies, comprising substantially all of the industry, are presented with the accompanying statistical tabulation. But before examining the several companies, take a look first at the cattle and hog supply coming to market.

Peak Beef and Hog Supply

Increased supplies of beef cattle and hogs point to the probability of relatively high volume of livestock for processing and above-average gross profit margins. Hog marketings increased significantly last year, enabling packers to increase operations in spite of inadequate offerings of cattle. As a result, packers have experienced quite a satisfactory first half of the 1959-60 fiscal year ending October 31—with the exception of Wilson & Co., which was hampered for several weeks by a serious labor disturbance.

Hog supplies have been reduced to some extent as a result of the decline in prices. The Department of Agriculture estimated, on basis of a survey of pig crop prospects, that the spring supplies would be reduced about 11 per cent from the year-earlier period. The contraction would tend to slow down preparation of pork products this summer and early autumn. In the meantime, however, enlargement of cattle herds has continued to the extent that herds on farms have topped 100 million cattle for the first time. The number of beef cattle involved has increased some 14 per cent, indicating that shipments to slaughter houses in coming weeks will be the largest in several years.

In Conclusion

Continued gains in personal income in reflecting recurrent wage increases as well as rising employment augur well for consumer demand for meats. Moreover, with elimination of obsolete packing facilities and closing of warehouses that have lost much of their usefulness as a result of speed-up of curing processes, packers are in position to counteract rising costs that may result from lower volume. Modernization of distribution facilities, especially by supermarket chains with their own distribution operations, has enabled meat packers to achieve economies that had been impossible prior to the revolution in packaging and in refrigeration of display counters in large retail outlets.

Company Appraisals

Swift & Co., largest factor in the industry, appears to have most to gain from modernization of facilities and from diversification in allied industries. Fact that the company has stressed processing of beef and other red meats is significant now that the cattle cycle is on the uptrend, pointing to the likelihood of enlarged volume and better margins at the same time. By placing increased reliance on last-in-first-out pricing of inventories the company has reduced adverse effects of erratic variations in livestock prices which have contributed to extreme fluctuations in earnings for most processors in past years. Net profit this year seems headed for substantial improvement over the $3.20 a share of 1959, suggesting additional ex- *(Please turn to page 441)*

FOR PROFIT AND INCOME

Drugs

Among the groups still in high favor, the vogue in drug stocks is the oldest. The group outgained the industrial list in each of the four years 1956-1959 and has continued to do so thus far in 1960. Indeed, instead of cooling, the boom in drug stocks has become more feverish and begins to look more like a "numbers game" than a rational appraisal of earnings. The latter might gain 12% to 15% on average this year. Many of the leading stocks are up from lowest 1960 levels by from 33% to 91%. In a number of instances price-earnings ratios now range from 30 to 35. It is pleasant to be in on a market vogue, costly to over-stay it. No one can guess when this one will cool or end, but surely it cannot run on forever. We think there is more to be said for holding basically good drug stocks at this stage—or for partial profit taking to reduce capital risk—than for new buying.

McKesson & Robbins

This company holds a unique position as the only wholesaler of drugs on a national scale. It also imports and wholesales liquors and is expanding in wholesale distribution of chemicals. Drug volume is close to two-thirds of total sales. Earnings have been rising gradually for some time. They were a record $3.07 a share in the fiscal year ended last March 31, up from the prior year's $2.85 (adjusted for 2-for-1 split). Dividends are at a $1.50 rate. Profit in the current year could reach the area of $3.30-$3.40 a share. On this projection the stock, at 47, is selling around 14 times earnings, with current yield about 3.2%. It lacks the glamor of favored drug-manufacturer stocks. On the other hand, risk is much below average in the group, valuation is reasonable and the company is assured of participation in long-term, over-all growth of drug sales.

Publishing

Publishing stocks have become one of the more recent market vogues, although interest centers mainly in those with major or important representation in text-books. Based on projected growth

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Northern Natural Gas	Quar. Mar. 31	$ .87	$ .74
Pepsi-Cola Co.	Quar. Mar. 31	.38	.32
Boeing Airplane	Quar. Mar. 31	.51	.22
Idaho Power Co.	Quar. Mar. 31	.59	.48
International Minerals & Chem.	9 mos. Mar. 31	1.59	1.05
Oxford Paper	Quar. Mar. 31	.63	.43
Richfield Oil Corp.	Quar. Mar. 31	1.73	1.39
Manhattan Shirt Co.	9 mos. Apr. 2	1.39	.74
San Diego Gas & Electric	Quar. Mar. 31	.73	.66
Lowenstein (M.) & Sons	Quar. Mar. 31	.71	.30

of textbook needs, from elementary schools through universities, the outlook is promising—but the stocks have been running far ahead of any probable growth rate in earnings. The group as a whole is up about 30% from this year's low to recent high. McGraw-Hill (trade journals and books) is the best of these equities. The company has an excellent record over the years, but gains have never been, and cannot be, sensational in any one year. The stock was recommended here from time to time at much lower levels in earlier years. It still merits holding on a long-pull basis by those willing to sit through possible wide gyrations at advanced levels. New buying of it, or of other heavily exploited publishing stocks, cannot be recommended. On the great rise from the 1949 low, McGraw-Hill did not get above 10 times earnings before 1954, above 15 times before 1957, when the peak ratio was about 16.4, above 20 times until 1959 when it attained a ratio of about 23. At recent high of 98¾, the issue was around 28 times likely 1960 earnings. The record is more or less typical of favored stocks. They have moved from under-valuation a decade ago, to and through fair valuation and then to extreme valuation.

Saved By Trouble

Under weight of excess supply, copper prices would be lower by now excepting for recurrent "trouble" in one area or another. Not long ago it was a strike which closed most U.S. mines. Then short strikes in Chile. Now it is the threat of political-economic disturbance in Katanga (Belgian Congo) where about an eighth of world copper is produced. The Congo is verging on freedom from hated white rule—and on possible, if not probable, chaos. Domestic copper shares are treading water, little above recent depressed lows. We prefer stocks less dependent on peculiar and uncertain price factors.

Inside The Market

At this time the market is in what buyers and holders of stocks hope in a "consolidating phase," prior to summer advance and following a sizable upsurge through the forepart of June. The latter has weakened the technical basis for any summer rise, so what it might amount to hinges mostly on psychology. Most cyclical stocks have had no more than limited and unimpressive rallies. Excepting drugs, electronics, publishing and most retailing issues, strength is largely confined to income stock groups, which reflect easing money rates and a considerable shift to the conservative side in investment demand. Lagging groups at this writing include aircrafts, air lines, aluminum, automobiles and auto parts, coppers, electric equipment and appliances, machinery, metal fabricating, oils, railroads, rail equipments, and steels.

Mutual Funds

At least for the time being, the public is less enchanted with mutual funds, but not yet disenchanted. Purchases of new fund shares in May dipped to $159.6 million, from $166.6 million in April and $180.8 million in May of 1959. Redemptions show no uptrend, but, at $71.4 million in May, equalled nearly 45% of sales. Compared with best earlier showings, mutual funds are now trending toward less net new money for investment. They have also veered to moderately greater caution in placing it. If a renewed market decline starts later, discounting the threat of business recession in 1961, public buying of fund shares will recede further and redemptions could be expected to rise.

Leaders

Individual stocks performing significantly better than the market at this writing include: American Broadcasting-Paramount, American Hospital Supply, American Optical, Armstrong Cork, Commercial Solvents, Duquesne Lighting, General Foods, Heinz, Marshall Field, May Department Stores, Middle South Utilities, National Biscuit, National Dairy Products, Otis Elevator, Ranco, Southern Company and Warner-Lambert. A sizable number of these have heretofore been recommended here, some recently.

Laggards

Among stocks performing relatively poorly at this time, some examples are: American Agricultural Chemical, American Stores, Bayuk Cigar, Continental Can, Dana Corp., Duplan, Jaeger Machine, Kerr McGee, Montgomery Ward, Natomas, Raybestos, Southern Natural Gas and West Kentucky Coal.

Cigarettes

The cigarette stock group has edged up to another new all-time high, aided by a continuing moderate-rate rise in unit consumption, dollar sales and over-all earnings, plus current increased appeal of income stocks. Within the group, however, performance is mixed. Liggett & Myers and Lorillard are well down from earlier highs. The sharp earlier rise in sales and net of Lorillard has slowed to a walk. Prospects for L. & M. are unimpressive. The group's rise has been accounted for by strength in American Tobacco, Philip Morris and Reynolds. The latter is getting increased acceptance as a growth stock, so at present price of 70 the yield of the $2.20 dividend is little over 3% and by far the lowest in the group. However, the company is tops in growth of sales, profits and dividends. It has the best operating margin. It has the biggest share of the market and, as in-

(Please turn to page 445)

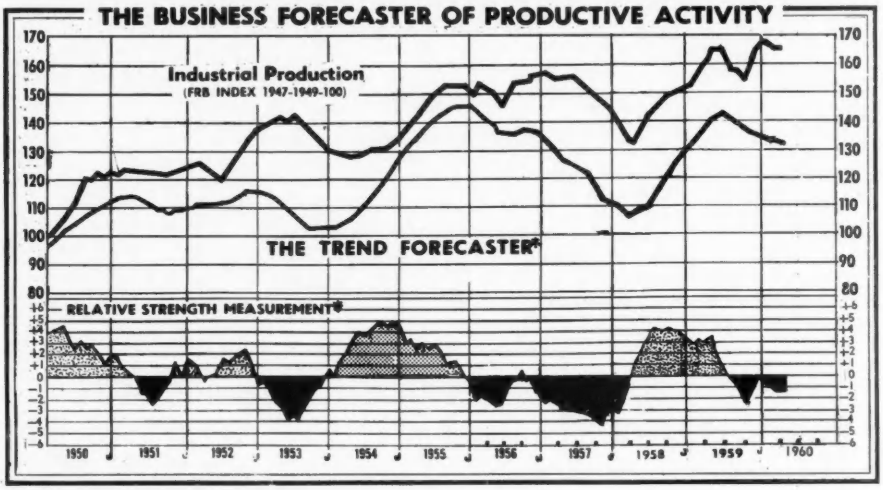
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Allied Mills Inc.	Quar. Mar. 31	$ .81	$1.09
Transamerica Corp.	Quar. Mar. 31	.36	.53
Tishman Realty & Con.	6 mos. Mar. 31	.38	1.35
Alco Products Inc.	Quar. Mar. 31	.27	.56
Plymouth Oil	Quar. Mar. 31	.11	.60
Holland Finance Co.	12 mos. Mar. 31	.74	1.18
United Aircraft Corp.	Quar. Mar. 31	.95	1.20
Associates Investment	Quar. Mar. 31	1.16	1.27
Continental Baking Co.	13 weeks Mar. 26	.68	.95
Evans Products	Quar. Mar. 31	.11	.38

the Business

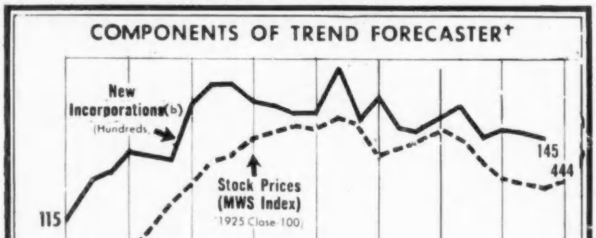
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

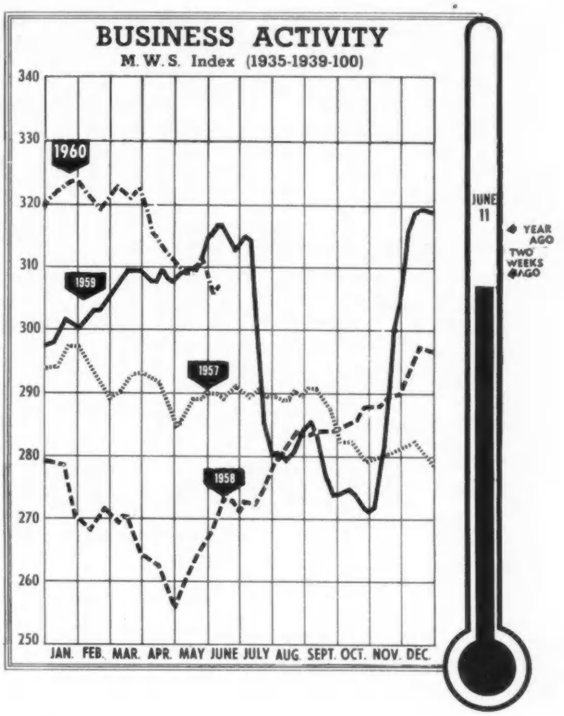
We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

The components of the Trend Forecaster have continued to follow divergent trends in recent weeks, but declining tendencies still appear to be in the ascendancy. Although stock prices improved in the latest month for which data are available, nonresidential contracts dipped, after an advance of four months duration, new incorporations declined further and new orders were somewhat lower, although still remaining in the narrow range of recent months. Hours worked, recovered slightly from their April low while housing starts and raw material commodity prices were virtually unchanged.

On the basis of the latest data, the Relative Strength Measure failed to recover in May, from the minus 1½ level reached in April. The Trend Forecaster was still declining slowly and was about 11 points under the high reached in mid-1959. Recent trends in the indicators point to business irregularity in the months ahead but still do not signify that a recession is in the offing.

Analyst



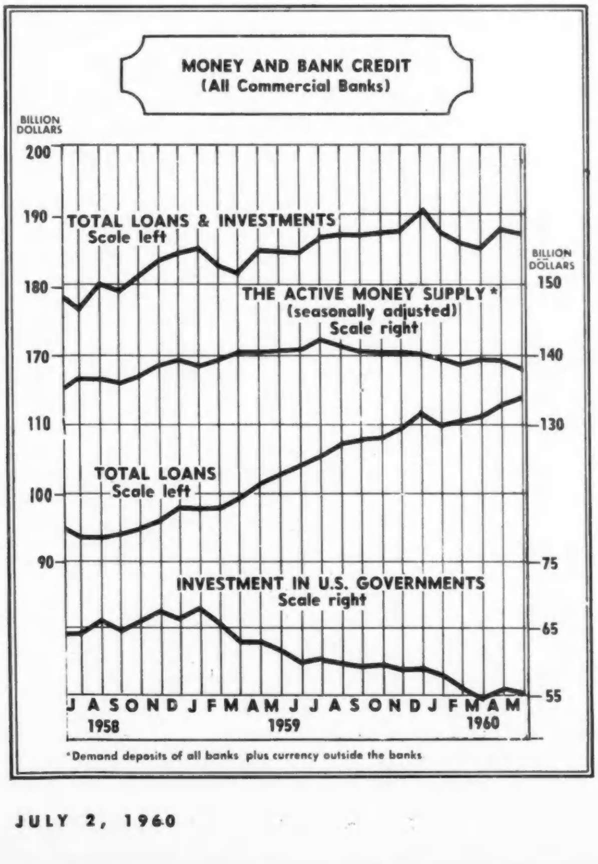
CONCLUSIONS IN BRIEF

PRODUCTION—Increased output of consumer goods — autos, furniture, appliances, TV sets—and business equipment, pushes production higher, despite lag in demand for steel, coal, petroleum. Big inventories of consumer hard goods indicate that cutbacks are near in that field while output of basic materials should improve.

TRADE—Consumer unable to maintain fast April spending pace, which was stimulated by deferred demand. Retail trade to continue at a good rate, although high level of personal debt precludes sharp spurt in outlays.

MONEY & CREDIT—Treasury use of "advance refunding" to lengthen the average maturity of Federal obligations, checking rise in bond prices. Bank loans rising slowly and this is helping to maintain high interest rates on prime loans.

COMMODITIES—Prices generally steady although a few lines are under competitive pressures. Sensitive commodities to pick up later this Summer, but falling money supply militates against general price rise.



THE economic indicators have gyrated sharply in recent months, leaving the casual observer of business trends in rather an uncertain state of mind. The month-to-month statistics have veered from gloomy to bright and back to cloudy again, without any advance warning, and public sentiment regarding the outlook has changed just as abruptly.

Most of the business fluctuations this spring have been the direct result of nature's capriciousness earlier in the year, and the effects are still giving us a distorted view of business developments. The elements' contribution to economic confusion took place in March, when inclement weather depressed such key indicators as retail sales and personal income, arousing apprehension that a recession was on the way. But the mood of pessimism was quickly dissipated by the arrival of Spring, which released previously deferred buying power and provided a sharp stimulus to business, giving the economy the temporary look of a strong revival in the making.

But now the May figures, which do not have the benefit of artificial stimulation, look rather negative in comparison with the sparkling results of the previous month, and this has brought more sober second thoughts regarding the outlook. The most disappointing showing in May was made by retail sales, where the April spurt had aroused so much optimism. They declined by $500 million in May, the sharpest dip since the contraction induced by the steel strike. Employment also failed to come up to expectations, falling somewhat below April's level,

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND

	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	May	167	165	166
Durable Goods Mfr.	1947-'9-100	May	175	172	177
Nondurable Goods Mfr.	1947-'9-100	May	161	159	156
Mining	1947-'9-100	May	125	127	131
RETAIL SALES*	$ Billions	May	18.4	18.9	18.2
Durable Goods	$ Billions	May	6.0	6.3	6.1
Nondurable Goods	$ Billions	May	12.4	12.6	12.1
Dep't Store Sales	1947-'9-100	May	140	154	144
MANUFACTURERS'					
New Orders—Total*	$ Billions	Apr.	30.3	30.3	31.2
Durable Goods	$ Billions	Apr.	14.4	14.6	15.8
Nondurable Goods	$ Billions	Apr.	15.9	15.7	15.4
Shipments*	$ Billions	Apr.	31.1	30.8	30.3
Durable Goods	$ Billions	Apr.	15.1	15.2	15.2
Nondurable Goods	$ Billions	Apr.	16.0	15.7	15.1
BUSINESS INVENTORIES, END. MO.*	$ Billions	Apr.	92.6	92.3	87.6
Manufacturers'	$ Billions	Apr.	54.6	54.3	51.1
Wholesalers'	$ Billions	Apr.	12.8	13.0	12.1
Retailers'	$ Billions	Apr.	25.0	25.1	24.5
Dept. Store Stocks	1947-'9-100	Apr.	159	162	151
CONSTRUCTION TOTAL—†	$ Billions	May	53.9	53.9	56.6
Private	$ Billions	May	38.1	39.2	39.6
Residential	$ Billions	May	21.0	21.1	23.8
All Other	$ Billions	May	17.1	17.1	14.8
Housing Starts*—a	Thousands	Apr.	1135	1125	1434
Contract Awards, Residential—b	$ Millions	Apr.	1453	1480	1677
All Other—b	$ Millions	Apr.	1884	1880	1865
EMPLOYMENT					
Total Civilian	Millions	May	67.2	66.2	66.0
Non-farm*	Millions	May	53.3	53.3	52.1
Government*	Millions	May	8.4	8.5	8.1
Trade*	Millions	May	11.6	11.6	11.4
Factory*	Millions	May	12.5	12.5	12.5
Hours Worked	Hours	May	39.8	39.4	40.5
Hourly Earnings	Dollars	May	2.28	2.28	2.23
Weekly Earnings	Dollars	May	90.74	89.83	90.32
PERSONAL INCOME*	$ Billions	May	399	398	381
Wages & Salaries	$ Billions	May	272	272	260
Proprietors' Incomes	$ Billions	May	60	59	59
Interest & Dividends	$ Billions	May	39	38	35
Transfer Payments	$ Billions	May	28	28	26
Farm Income	$ Billions	May	16	15	16
CONSUMER PRICES	1947-'9-100	Apr.	126.2	125.7	123.7
Food	1947-'9-100	Apr.	119.5	117.7	117.7
Clothing	1947-'9-100	Apr.	108.9	108.8	107.0
Housing	1947-'9-100	Apr.	131.4	131.3	128.7
MONEY & CREDIT					
All Demand Deposits*	$ Billions	May	109.4	111.2	112.4
Bank Debits*—g	$ Billions	May	98.0	95.3	92.0
Business Loans Outstanding—c	$ Billions	Apr.	31.8	31.9	32.4
Instalment Credit Extended*	$ Billions	Apr.	4.4	4.1	4.0
Instalment Credit Repaid*	$ Billions	Apr.	3.9	3.7	3.5
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Apr.	5.1	9.6	4.3
Budget Expenditures	$ Billions	Apr.	6.0	6.4	6.4
Defense Expenditures	$ Billions	Apr.	3.7	3.9	3.9
Surplus (Def) cum from 7/1	$ Billions	Apr.	(3.6)	(2.6)	(13.2)

PRESENT POSITION AND OUTLOOK

on a seasonally adjusted basis, while the rise in personal income was only half of that registered a month earlier.

But the confusing cross-currents of day-to-day developments are only surface manifestations, that hardly affect the basic trend. By examining the movements of a broad variety of basic indicators, the analyst will find that the economic recovery which started twenty-six months ago is still moving upward, although the pace of the advance has now been reduced to little better than a crawl. And even this slow gain may not be maintained for long, as both consumer demand and capital spending — the two sectors on which forecasters have been relying for further gains—show signs of a loss in vitality. Appropriations for new plant and equipment, which lead actual capital outlays by 9 to 12 months, turned down in the first quarter, presaging a decline for capital spending in late 1960 or early 1961. Consumer buying has failed to live up to earlier expectations and makers of major consumer appliances are now cutting output in an effort to reduce stocks to manageable proportions. Similarly, the auto makers are planning an early introduction of 1961 models in the hope of stimulating waning public interest, while dealers have the monumental task of selling the more than one million 1960 autos that are still in showrooms. Fundamentally, it appears that the high level of consumer debt and the indicated slower rate of gain for personal income will preclude any sharp upswing in consumer demand in the months ahead.

With the two key areas of consumer buying and capital spending losing their upward velocity, and no sharp jump in Government outlays in prospect, it is hard to see where the impetus for further strong near-term economic gains are to come from. In fact, by late Fall, or even earlier, business may be facing a test of its ability to hold at currently advanced levels of activity.

* * *

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1960 Quarter I	1959 Quarter IV	1959 Quarter III	1959 Quarter I
GROSS NATIONAL PRODUCT	500.2	483.5	478.6	470.4
Personal Consumption	321.1	317.0	313.3	303.9
Private Domestic Invest.	79.2	69.7	67.0	70.0
Net Exports	1.2	—0.6	0.0	—0.9
Government Purchases	98.8	97.4	98.4	97.4
Federal	52.3	52.7	53.6	53.8
State & Local	46.5	44.7	44.8	43.6
PERSONAL INCOME	393.1	386.8	381.0	371.8
Tax & Nontax Payments	47.7	46.1	45.8	44.4
Disponsable Income	345.4	340.8	335.2	327.4
Consumption Expenditures	321.1	317.0	313.3	303.9
Personal Saving—d	24.3	23.7	21.9	23.5
CORPORATE PRE-TAX PROFITS		45.7	46.4	46.5
Corporate Taxes		22.2	22.6	22.6
Corporate Net Profit		23.4	23.8	23.8
Dividend Payments	13.6	13.6	13.4	12.8
Retained Earnings		9.8	10.4	11.1
PLANT & EQUIPMENT OUTLAYS	35.3	33.6	33.4	30.6

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	June 11	307.3	305.7	317.0
MWS Index—per capita*	1935-'9-100	June 11	222.4	221.2	233.3
Steel Production	% of Capality	June 18	62.3	61.6	163.1
Auto and Truck Production	Thousands	June 18	173	174	167
Paperboard Production	Thousand Tons	June 11	327	290	330
Paperboard New Orders	Thousand Tons	June 11	329	327	309
Electric Power Output*	1947-'49-100	June 11	269.2	266.3	254.7
Freight Carloadings	Thousand Cars	June 11	648	574	709
Engineerings Constr. Awards	$ Millions	June 16	583	482	546
Department Store Sales	1947-'9-100	June 11	144	131	141
Demand Deposits—c	$ Billions	June 8	58.5	58.2	61.6
Business Failures—s	Number	June 9	283	274	295

PRESENT POSITION AND OUTLOOK

THE NATION'S ACTIVE MONEY SUPPLY, which consists of demand deposits and currency outside the banks, has been declining steadily in the past year, falling to $137.6 billion in May of this year, from the $141.2 billion peak reached in July, 1959.

Economists usually watch the money supply carefully because of its close relationship to price trends and business activity in general. This follows from the fact that the money supply times the velocity of its turnover always equals the total value of all goods and services produced by the economy in a given period.

In the recent past, the drop in the money supply has been counterbalanced by a rise in its velocity, but there is no longer much room for further increases in turnover. Of course, a sharp increase in bank credit would undoubtedly lead to expansion of the money supply and the easing of Federal Reserve monetary policy is designed to facilitate this. Thus far, however, business uncertainty has militated against a strong upturn in borrowing and no change in this situation is in sight.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun Bradstreet. (t)—Seasonally adjusted, annual rate. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960 High	1960 Low	1960 June 10	1960 June 17
Composite Average	482.5	429.5	450.4	445.7
4 Agricultural Implements	424.3	346.4	394.0	402.7
3 Air Cond. ('53 Cl.—100)	130.1	110.9	117.3	121.1
9 Aircraft ('27 Cl.—100)	1116.1	861.9	961.4	983.4
7 Airlines ('27 Cl.—100)	1044.6	780.7	868.7	824.7
4 Aluminum ('53 Cl.—100)	521.3	437.9	458.7	443.1
5 Amusements	250.3	209.3	248.0	248.0
5 Automobile Accessories	531.1	444.4	482.3	466.0
5 Automobiles	157.0	107.7	112.3	107.7L
3 Baking ('26 Cl.—100)	39.1	34.9	36.8	36.0
4 Business Machines	1422.6	1172.3	1396.2	1383.1
6 Chemicals	809.6	689.4	793.6	809.6H
4 Coal Mining	36.0	29.3	30.0	29.3L
4 Communications	229.9	209.1	225.2	220.6
9 Constructions	169.2	158.9	164.1	162.3
5 Container	1064.7	949.9	960.3	970.7
5 Copper Mining	337.7	298.4	311.5	311.5
2 Dairy Products	180.8	146.8	174.6	180.8H
5 Department Stores	153.9	135.2	151.0	153.9H
5 Drugs-Eth. ('53 Cl.—100)	474.7	386.8	461.5	474.7H
5 Elect. Eqp. ('53 Cl.—100)	334.7	332.9	384.7	384.7
3 Finance Companies	689.0	648.8	668.9	675.6
5 Food Brands	477.3	419.3	459.5	477.3H
3 Food Stores	270.8	250.2	257.9	255.3

(Nov. 14, 1936 Cl.—100)	High	Low	June 10	June 17
High Priced Stocks	299.9	271.9	290.4	288.4
Low Priced Stocks	653.8	564.1	577.5	566.8
5 Gold Mining	1064.2	841.2	861.5	841.2L
4 Investment Trusts	170.6	145.0	150.1	151.8
3 Liquor ('27 Cl.—100)	1534.5	1188.5	1218.6	1188.5
7 Machinery	512.8	460.5	481.4	465.7
3 Mail Order	446.1	386.9	423.3	418.8
4 Meat Packing	286.8	226.7	243.1	234.9
4 Mtl. Fabr. ('53 Cl.—100)	208.6	162.5	166.5	162.5
9 Metals, Miscellaneous	399.1	320.8	343.2	335.7
4 Paper	1237.1	956.6	1033.1	994.8
16 Petroleum	736.9	609.0	631.6	616.6
16 Public Utilities	369.3	341.6	365.8	369.3H
6 Railroad Equipment	99.8	87.8	94.8	90.8
18 Railroads	70.1	57.3	60.7	58.6
3 Soft Drinks	835.6	690.3	828.3	835.6H
11 Steel & Iron	464.9	362.6	395.2	385.9
4 Sugar	100.9	66.7	71.3	66.7L
2 Sulphur	655.9	563.1	600.2	594.0
11 TV & Electron. ('27—100)	118.3	96.6	116.1	118.3
5 Textiles	223.0	187.7	200.9	192.1
3 Tires & Rubber	255.9	204.2	219.7	217.1
5 Tobacco	197.5	182.5	197.5	195.6
3 Variety Stores	374.8	352.9	374.8	374.8
14 Unclassif'd ('49 Cl.—100)	295.1	250.3	260.9	255.6

H—New High for 1960. L—New Low for 1960.

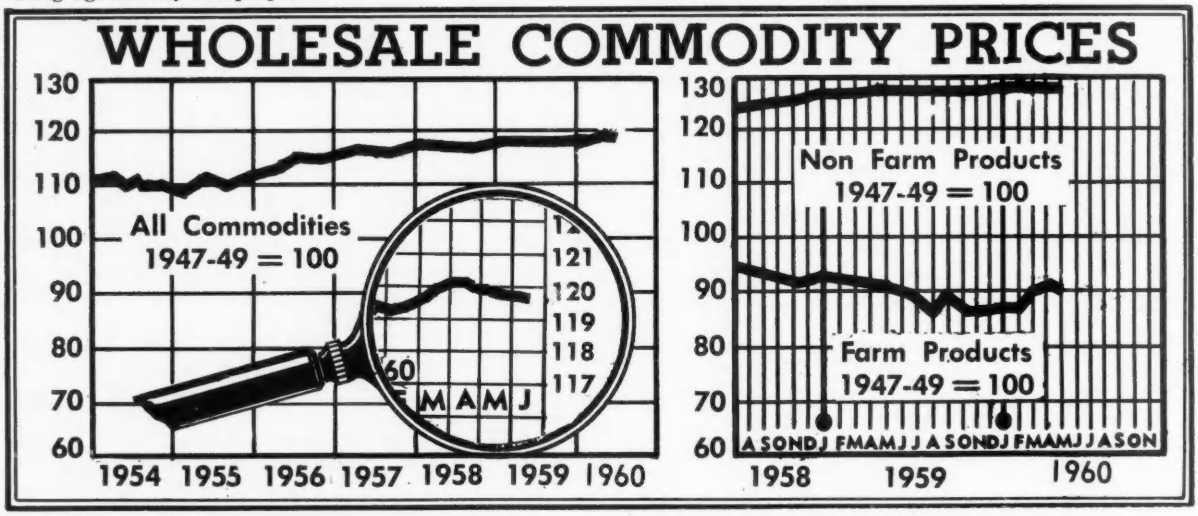
Trend of Commodities

SPOT MARKETS—Sensitive commodities were lower on balance in the two weeks ending June 17. The BLS daily index of 22 leading commodities lost 0.5% in the period under review, with the weakness concentrated in fats, oils and livestock products used in industry. Among individual commodities, copper scrap, lead scrap, rosin, print cloth, rubber, tin and wool tops, all advanced, while burlap, hides, steel scrap and tallow lost ground.

Among the broad range of commodities meanwhile, prices were little changed in most cases. The BLS comprehensive weekly price index was down 0.1%, with most of the decline due to lower farm prices, which were under seasonal pressures. Prices in general should remain in a narrow range through the Summer, with a declining money supply militating against any sharp upmove.

FUTURES MARKETS—Futures prices followed divergent trends in the two weeks ending June 17, with changes small in most cases. Wheat, soybeans, lard, world sugar, storage eggs and hides were lower, while coffee, rubber and copper improved. Other commodities were mixed, with one month advancing while another declined. The Dow-Jones Commodity Futures Index was barely changed during the period.

Wheat futures declined moderately in the period under review. The December option lost 1 cent to close at 192¼. The Government forecast a 1,019 million bushel winter wheat crop, based on June 1 conditions, which was higher than expected and 28 million bushels above the previous estimate. Weather conditions were favorable on the whole. Widespread rain caused some harvest delays but provided beneficial moisture for the winter wheat crop.



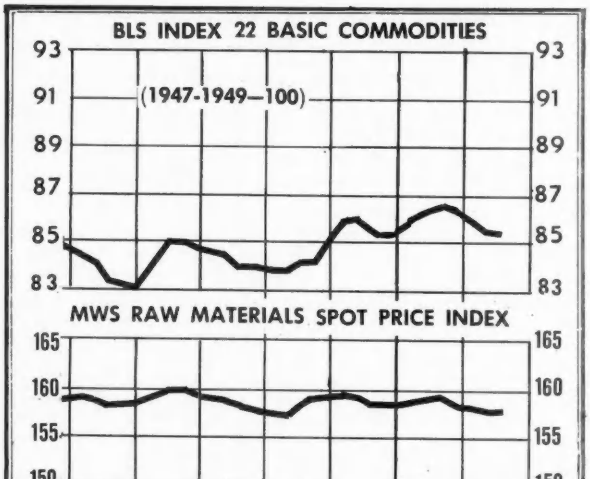
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	June 14	119.6	119.7	119.7	60.2
Farm Products	June 14	89.1	89.8	89.8	51.0
Non-Farm Products	June 14	128.3	128.4	128.2	67.0
22 Sensitive Commodities	June 17	85.4	85.8	88.0	53.0
9 Foods	June 17	77.2	77.1	82.1	46.5
13 Raw Ind'l. Materials	June 17	91.4	92.2	92.3	58.3
5 Metals	June 17	92.8	92.7	95.2	54.6
4 Textiles	June 17	80.7	80.5	79.9	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1960	1959	1953	1951	1941
High of Year	160.0	161.4	162.2	215.4	85.7
Low of Year	157.5	152.1	147.9	176.4	74.3
Close of Year		158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1960	1959	1953	1951	1941
High of Year	148.7	152.7	166.8	215.4	84.6
Low of Year	144.5	144.2	153.8	174.8	55.5
Close of Year		147.8	166.5	189.4	84.1



Answers to Inquiries...

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

U.S. Plywood

"I have been a subscriber to your valued magazine for a good many years and find it very helpful. A couple of years ago I purchased some shares in U.S. Plywood on its growth prospects and also the fact that it is regarded as an inflation hedge. Please give me your opinion of the company."

C. L., Flint, Michigan

U.S. Plywood Corp. is a prominent factor in the plywood industry. The company has vast acreage and its timber resources are very large and the stock is regarded as having some inflation hedge characteristics. Expanding uses of plywood offers further growth and the stock warrants retention for its favorable near and long term prospects.

Earnings after taxes for the year ended April 30, 1960 were $12,872,400, equal after payment of preferred dividends to $5.10 per share on 2,448,810 shares of common stock. This compared with operating earnings after taxes of $10,917,600 in the previous fiscal year, equal, after preferred dividends, to $4.31 per share on 2,423,857 shares of common stock then outstanding.

Sales for the year ended April 30, 1960 were a record $276,244,000 compared with $238,738,000 in the preceding year.

Earnings for the quarter ended April 30, 1960 after taxes were $2,786,600, equal after preferred dividends to $1.10 per share of common stock, compared with $3,561,100 in the same quarter last year, equal after preferred dividends to $1.43 per share.

Sales for the latest quarter were $69,695,000 compared with $66,938,000 in the same period last year.

Current quarterly dividend is 50 cents per common share.

The good demand for plywood and development of new products enhance the longer term outlook.

Dresser Industries

"I note that Dresser Industries reduced its dividend recently. I own some stock in the company. What is its outlook and shall I sell or hold?"

E. B., St. Paul, Minn.

Dresser Industries is a major producer of a diversified line of equipment used in the oil and gas producing and transmission industries. The over-supply situation in the petroleum industry has adversely affected operations of Dresser Industries and the company is striving to increase its share of available business and to accelerate the development of new products and the entry into new markets having better potentials for the near term.

Net earnings for the fiscal quarter ended April 30, 1960 amounted to $1,634,760 or 35 cents per common share. For the first 6 months of 1960 the company realized net earnings of $3,856,107 on sales of $114,414,968 and per share earnings of 82 cents. This compares with net earnings of $4,743,792 on sales of $110,732,661 and per share earnings of $1.01 made in the first 6 months of 1959.

The company's backlog of unfilled orders as of April 30, 1960 amounted to $57,312,000 compared to $50,237,000 for the same period a year ago, an increase of $7,075,000. The company believes that its sales and earnings for the year as a whole will exceed those of 1959 by moderate proportions and that the second half of the fiscal year will be particularly active.

Due to the rescheduling of orders by customers, sales and earnings of the machinery companies declined in the second quarter. There was a moderate improvement in the balance of the company's operations, the majority of which consist of products and technical services for the drilling industry. This improvement, despite the depressed drilling conditions was not sufficient to offset the decline in Dresser's machinery business.

The quarterly dividend on the common stock payable June 15, 1960 was reduced to 30 cents per share from 40 cents. On an annual basis, the new rate becomes $1.20, compared to $1.60 previously paid. The company believes the new rate is sustainable under the present conditions of the oil industry and bears a more normal relation to Dresser's current and immediately prospective

(Please turn to page 446)

U.S. Stake In Japan

(Continued from page 419)

that Japan can only continue to buy from us at this rate if it earns enough dollars through exports to the United States. Last year was the first time in the postwar period that Japan managed to push its sales in the U.S. up to a level that would balance its large purchases here!

It is a pity that the 16th century mercantilist notion that all exports are good and all imports bad dies so hard. Trade is a two-way street, and obviously the nation profits from both exports and imports. It is the producers generally who gain from exports, and the consumers from imports, but the lines are not clearly drawn. For example, exports added to domestic demand permit a larger volume of production and and therefore lower unit costs which are passed on to the consumer. And imports, being often cheaper than the domestic product, help to keep price levels down, an important factor in production costs.

United States imports from Japan, at a record level of $1 billion last year, were boosted by about $100 million in extra iron and steel purchases due to the strike here. Japanese textile manufactures continue to be popular with American consumers. There is growing demand here for Japanese sewing machines, cameras, microscopes, and binoculars. Small transistor radios have met with great favor, and Americans are eagerly awaiting the arrival here of Japan's all-transistorized portable television sets.

U.S. Investment Prospects

The Japanese are a hard working and intelligent people. They are fired with a determination to get ahead in the world. Their level of capital formation (investment) is one of the highest in the world—about 25% of total national product. Japan is the only country in the Orient for whom a Western standard of living is a realistic goal in our generation. Because of the tremendous growth potential represented by Japan, and because of the favorable climate for free enterprise, many Americans have been attracted to investment opportunities in that country.

The possibilities for portfolio investment are diverse indeed. Japan has one of the most highly developed stock markets in the world. Japanese stocks regardless of quality sell at very favorable price-earnings ratios by U.S. standards. The Tokyo "Dow Jones Index" has chalked up a remarkable gain in the last two years, roughly doubling in value.

Foreign investors buying stocks in Japanese companies may apply for, and will generally receive a validation certificate which promises full dividend payment in dollars, and the right to withdraw the original investment after a two-year period, at the rate of one-third annually. Such repatriation privileges are not transferable from one security to another, so if switches are made a new validation application must be made.

Some examples of the type of growth-oriented Japanese companies recently interesting American investors follow: **Sony Corporation**—well known to the U.S. public through its vigorous merchandising of transistor radios here, nearly half its total production is for export. **Toyota Motor Co. Ltd.** — the largest company in the Japanese automotive industry (43% of total production last year), maker of the famous Toyopet passenger car. **Matsushita Electric Industrial Co., Ltd.** — Japan's major producer of electric appliances, has technical agreements with leading U. S. and Dutch companies. **Sumitomo Chemical Industry Co., Ltd.** — the DuPont of Japan, the nation's largest chemical producer with a well diversified line including fertilizers, drugs, dyestuffs, plastics, and petrochemicals. **Tokyo Shibaura Electric Co. Ltd. (Toshiba)** — could be called the GE of Japan, and in fact has close technical relationship with U.S. General Electric; about one-third of current sales are heavy electrical equipment, the balance electric bulbs, appliances, and communications equipment, etc.

Making Corporate Investment in Japan

Direct equity investment through U.S. subsidiary operations is more complex in Japan than portfolio investment in publicly held stocks. This is because the Japanese Government has taken a number of indirect steps to discourage any large inflow of private foreign investments. Although the 10-year old Foreign Investment Law guarantees unconditional remittance of earnings on all "validated" foreign investments, the catch is to pass scrutiny under the validation procedure.

A large number of patent licensing and royalty agreements between Japanese and foreign companies have been consented to by the Government (more than 850). ***However, very few American companies have gained official approval under the Foreign Investment Law for establishment of directly owned subsidiaries, and without validation they have been reluctant to take their chances on Japanese foreign exchange controls.***

The Government's position appears to derive from several factors: (1) a desire to avoid piling up burdensome foreign exchange obligations, (2) a reluctance to subject Japanese industry to the full force of foreign competition, and (3) a belief that the introduction of highly automated industrial techniques from abroad might add to Japan's unemployment problem.

Change in Policy and Why

But all of this is slowly changing. The Foreign Investment Law was liberalized somewhat last summer and again this June. One factor at work was the Government's discovery that royalty agreements constitute a less flexible call on foreign exchange reserves than foreign-owned subsidiary operations. Royalties are seldom reinvested, and they do not fluctuate as profits do from one year to the next.

Also important was the realization that Japanese industry had grown up and no longer needed, and in most cases did not desire, official protection. Furthermore, heightened competition in world markets is putting the cost squeeze even on Japanese exporters (who, contrary to some Western opinion, do not have

such low production costs after all), and thus interest in automation is growing despite its possible effects on employment.

More important, though, is the fact that Japan's improved foreign exchange position, and good export earning prospects have permitted the introduction on July 1st this year of a modified free yen. Non-residents may now open convertible yen accounts with Japan's foreign exchange banks. This is a welcome first step on the road to full convertibility, and it has encouraged many U.S. companies to believe that they will soon be able to go ahead with plans for Japanese subsidiaries without the stumbling block of validation. Once this takes place, Japan will be well on its way toward genuine integration into the Free World economy. END

An Expert Reappraises Varying Outlook For The Railroads

(Continued from page 423)

Illinois Central will provide a good clue as to the fate of the rails' diversification movement.

Investment Policy

The industry outlook for the months ahead points to improved traffic conditions but a continued squeeze on profits. On a broader front, while the efforts of the railroads to restore their competitive position and to regain traffic from the trucks may ultimately pay off, these moves are not yet bearing fruit. Therefore, there is little reason to deviate from a policy of only investing in the rail shares of well-defined situations at this time. Look for railroads serving fast-growing regions, having strong finances, low wage ratios and generally favorable operating characteristics. The speculative carriers, particularly those in the East, would seem to have little appeal at this time in view of the profit margin squeeze which is expected to continue.

For the long-term investor seeking income situations, shares of the transcontinental railroads best fill the bill, generally speaking, since they possess the favorable characteristics noted above. However, since the outcome of the Transcontinental Divisions Case (initial decision likely this fall) will probably adversely affect these companies by allocating a larger share of the rate on a coast-to-coast movement to Midwestern and Eastern railroads, purchases in the group are best deferred until the decision is known.

Of these roads, **Santa Fe** is particularly well situated, owing to a long average haul, good revenue growth and expanding non-rail income. This is a sound income producing stock.

Union Pacific has lost some of its lustre in recent years, primarily reflecting a poor trend of oil and gas income. Indications are that this trend will not be reversed in the immediate future and followers of this company may have to exercise some patience. The railroad operation basically is quite similar to that of Santa Fe, which means it is on a solid foundation.

Southern Pacific. It is not quite accurate to characterize the railroad end of Sopac's business as also being favorably situated. Adverse mountain grades, a good deal of one-way lumber traffic, and poor weather conditions are some factors which have prevented Southern Pacific from compiling superior efficiency ratings. However, with other income in a strong uptrend and this transportation giant serving a fast growing region, it is difficult to be pessimistic about this company's longer-range potential.

Western Pacific, a small railroad operating in the same West Coast area, also has an interesting long-run outlook.

The **Rio Grande** has attracted a sizeable following in recent years, which is indicative of both its good pastwar earnings record and the bright potential of its service area. Earnings improvement in 1960 is not likely to be impressive when measured against 1959 results, but this railroad's earning power should expand materially in the years ahead.

Great Northern and **Northern Pacific,** merger candidates for some time, also fit the pattern for longer-range attraction. Nipper in particular is worthy of investment consideration in view of the pronounced uptrend in its oil and gas income. The price-earnings

ratio of this company is now more reasonable than it has been for some time, probably reflecting the current disfavor of the oil group.

As a group, the Midwestern railroads are probably best situated at the moment.

Rock Island has been pursuing a policy of expanding service to attract new business; larger expense without a commensurate gain in revenues has been the experience to date. Since additional business can be hauled with very little added expense (existing trains will be filled out), a good base exists for profits growth.

Kansas City Southern continues to roll along, reporting a high level of profits year in and year out. Considering the excellent earnings and strong finances, this company is probably a strong candidate for a dividend increase. At the other extreme, good progress has been made in rehabilitating the marginal **Chicago and North Western** system. Given a fair grain movement in the months ahead, the company may enjoy its best earnings year in a decade.

Traditionally the coal roads have been among the strongest units in the industry. Witness the good earnings and dividends records of **Chesapeake & Ohio** and **Norfolk & Western**. Either one is a suitable commitment for income, with Chessie favored at the moment.

It is harder to characterize the Southern roads as a group since barge competition has affected some more severely than others.

Louisville & Nashville and **Gulf, Mobile & Ohio** have been particularly hurt in this regard and have lost much of their investment standing. On the other hand, **Southern Railway** has compiled an impressive record in the postwar period and has won an excellent following among institutional investors.

Seaboard Air Line and **Atlantic Coast Line** have had reasonable good experience in the last decade; a merger of the two railroads is under way. Based on the growth in the service area and the large economies which should stem from this "side-by-side" merger, the shares of the new company may be a good value, if and when the union is actually consummated.

The worst problems of the railroad industry are found in the East; hence the shares of these companies are highly speculative and their attraction is limited to use as trading vehicles during the early phase of an upturn in the business cycle. In view of their high wage factors, the earnings outlook for these companies is quite obscure.

Sick giants such as **New York Central** and **Pennsylvania** will have trouble bringing even a thin portion of their large gross revenues down to net.

The **New Haven** is tottering on the brink of disaster. The **Lackawanna** and **Erie** may continue to have serious operating problems, even assuming merger of the two systems. The high-yielding **Delaware & Hudson** is not particularly attractive since suspicions as to the safety of the dividends are more likely to increase before they diminish. END

Agricultural Machinery At Peak?

(Continued from page 426)

those of 1959. In addition to reported earnings, the parent company's equity in the undistributed earnings of foreign subsidiaries may exceed $0.90 this year.

Priced around 46, the stock yields about 5.2% on the $2.40 dividend, which is amply covered by earnings.

Caterpillar Tractor — Although Caterpillar is primarily a supplier of tractors and related equipment to the construction industry, its list of major customers also includes mining and logging companies and those industrial concerns which require its equipment for such uses as the handling of bulky and heavy materials. On farms good use is made of Caterpillar machines, not only for cultivating the soil, but also for ditching and contouring the land to provide needed moisture and to minimize erosion.

Sales in the first five months of 1960 were below those of a year ago by a small percentage. Reflecting the impact of rising employment and material costs, and competitive conditions which prevented increases in selling prices, net profit margins dropped below normal, averaging about five percent of sales. Earnings declined to $0.59 per share from $0.82 a year previous, after adjustment for the 3 for 1 stock split-up of September, 1959. May results were disappointing, but the month of June may bring improvement as the construction awards for the first three weeks indicated considerable advance over the weekly average in May as well as over the corresponding weeks in June, 1959.

The latest available detailed reports of construction contracts indicate a year to year advance in road and street work of a little more than 10 percent. It is estimated that sales for all of 1960, will be slightly above the $742 millions recorded in 1959. With increasing monthly volume, margins should also improve, barring, of course, any serious deterioration of the economic atmosphere. Furthermore, the management has within the last two months stated its opinion that part of the sales they had expected this year would carry over into 1961, resulting in a somewhat better year than had originally been contemplated.

At the current price, the stock yields about 3.8% on the $1.00 per share dividend.

Massey-Ferguson Limited is the leading Canadian Farm equipment producer. However, Canada represents a comparatively small percentage of the company's world market. Of total sales in the 1959 fiscal year, Canada accounted for 11.7 percent, the United States 34.1 percent and Europe (including the United Kingdom) 39.3 percent. Besides agricultural and industrial tractors, which represent nearly half of its production, Massey-Ferguson manufactures harvesting and other agricultural equipment, construction machinery, diesel engines and other products.

Operations in the fiscal year ended October 31, 1959 resulted in pre-tax earnings of $27.4 millions and net income of $21.0 million, equivalent, after preferred dividends, to $1.65 per share of common stock (including a tax credit of $0.60). For the 6 months ended April 30, 1960, earnings declined to $0.55 per share from $1.03 a year previous.

At the current price of about 9⅛, the stock yields 4.4 percent

on the $0.40 per share annual dividend.

Allis-Chalmers is a well-diversified company producing tractors, farm machinery, electric power equipment, road building, construction and heavy industrial machinery. It has a research department engaged in various activities, including the atomic energy field and the development of the fuel cell—a device for converting the chemical energy in certain common gases directly into electricity. A prototype has been demonstrated as operable, but not yet economically feasible.

Sales in 1959 amounted to $539.6 million and earnings were $22.9 million, equivalent after preferred dividends to $2.47 per share of common stock. For the first quarter of this year, sales increased 50% over the strike-depressed level of a year ago and earnings amounted to $0.28 per share, as against a deficit of $0.43 per share in the initial 3 months of 1959.

At the current price of about 31, the stock yields 4.8% on the $1.50 annual dividend rate.

Oliver Corporation is a relatively small manufacturer of farm equipment. For the fiscal year ended October 31, 1959, sales amounted to $114.6 million, of which 72% represented farm equipment for the U.S. and Canada, and the balance consisted of products used in the industrial, construction and road-building fields, exports and defense products. The management has been streamlining operations and cutting down on unprofitable types of work.

For the 1959 fiscal year, earnings amounted to $1.39 per share, compared with $0.63 for 1958. In the six months ended April 30, 1960, earnings declined to $0.20 per share, from $0.53 a year previous, due to weather and other adverse conditions common to the industry.

At the current price of about 22, the stock yields 2.7% on the $0.60 per share annual dividend.

Following the failure of a deal with Studebaker-Packard early this year, the company is now negotiating sale of its farm equipment business to White Motor Company. Up to the time of going to press, the terms have not been announced.

Case (J. I.)—The company is a medium-sized producer of farm equipment. Acquisition of American Tractor in 1957 added a line of crawler tractors. In February 1960 there was a change of management, resulting in emphasis on reduction of expenses. For the fiscal year ended October 31, 1959, profits after preferred dividends amounted to $1.75 per share of common stock. However, for the first half of the current fiscal year, the company reported a deficit of $1.79 per share, as against earnings of $0.82 a year previous. No dividends are paid. The stock is selling at about 11.

Minneapolis - Moline Co. — Although one of the smaller farm equipment makers, the company is fairly well-diversified in product lines. Its output includes cultivating and harvesting machinery, construction equipment, crawler - type tractors, engines, axles, power transmissions, fork-lift tractors and other handling equipment. Subsidiaries include an electronic company and a finance unit.

In the fiscal year ended October 31, 1959, the company earned $3.2 million, following two years of deficits. New management interests have been responsible for much of the diversification and improvements evident in recent years. Earnings for the 1959 fiscal year amounted to $3.16 per share, compared with a deficit of $2.09 for fiscal 1958. It is of interest to note that sales were almost identical for the two years. No U.S. income taxes were incurred in either year due to loss carry-forward credits.

For the six months ended April 30, 1960, earnings amounted to $1.04 per share, as against $1.45 a year previous.

The stock is currently selling at about 21. No dividends are paid.

Myers (F. E.) & Bro. Co.—On May 24, 1960 stockholders approved the sale of the company's assets and business (subject to liabilities) to McNeil Machine & Engineering Co. for $11.8 millions, equal to $60 a share on the 197,829 outstanding shares. Settlement date will be June 24. Myers will pay an initial liquidating distribution of $55 a share, probably in July. The other $5 would be reserved for future distribution to shareholders, after certain expenses are deducted. The New York Stock Exchange will suspend trading in the common about July 15. END

Meat Packers Showing Trend Toward More Profitable Operations

(Continued from page 429)

tra dividends or an increase in the 40-cent quarterly rate. Payments for the calendar year well may top $2 a share.

Armour & Co., second largest in the field, probably has the most to gain percentagewise from reorganization of processing facilities and achievement of better cost controls in meat processing. Elimination of unprofitable operations promises to contribute significantly to improved margins. Brand-name advertising promotion is being accelerated. In addition, greater stress is being placed on development of non-meat products, which account for a high proportion of earnings. The company has attained high ranking among fertilizer and leather producers. Pharmaceuticals, chemicals and soaps are becoming increasingly important contributors to income. Resumption of cash dividends after a lapse of more than a decade testifies to management's confidence of sustained gains. Payments of 30-cents quarterly should be supplemented by extras, inasmuch as net profit this year promises to range well ahead of the $2.73 a share for 1959.

Wilson & Co., ranking third in size, has surpassed its major competitors in profit margins. The sporting goods line, an industry leader, has benefited from increased leisure-time spending. Management has followed a conservative policy in plant investments, preferring to purchase raw materials from others when conditions are favorable. Costly strikes last winter hampered results in the first half and may hold earnings for the year to a modest gain over the $3.88 a share for 1959. Dividends should be maintained at the $1.60 annual rate.

John Morrell & Co., which has

climbed to fourth spot by vigorous promotion of its pork products, derives about two-thirds of receipts from processing of hogs. Extensive advertising has been used to promote hams, sausage, bacon, and "Red Heart" dog and cat foods. Earnings reached record proportions last year in reflecting favorable spreads on hogs, amounting to $5.68 a share, against $2.24 a year earlier, adjusted for the 25 per cent stock dividend declared early this year. Although results may be moderately lower this year, ample coverage is indicated for the 80-cent annual dividend rate.

Hygrade Food Products Corporation, now ranked fifth in its group, concentrates on processed meats, such as sausages and bolognas, yielding wider margins. Growth has been achieved in part by acquisition of smaller competitors. Further progress in sales and earnings seems likely this year. Adequate coverage is envisioned for the indicated $1 annual rate.

Cudahy Packing Company has been contracting operations through elimination of obsolete facilities. A modernization program at the large Omaha plant is to be finished next year. Profit margins are gradually improving in reflecting these adjustments. Net profit, without benefit of tax carry-forward credits this year, may approximate results for the previous two years, in which no provision was made for federal income taxes. Resumption of dividends may be considered later this year.

International Packers, which substantially enlarged its South American operations through acquisition of Armour's foreign business, concentrates on overseas markets. Activities are hampered by political and economic uncertainties as well as by foreign exchange fluctuations. Prospects for the time being seem to have brightened, but the stock involves more than usual risks, as indicated by the above-average return on the 60-cent annual dividend rate.

George A. Hormel & Co., one of the smaller nationally known packers, has specialized on preparation of meats and other food products for distribution through grocery outlets. Much of the specialty products are canned in tin or glass. Baby meat products are processed for Beech-Nut Life Savers. Earnings have registered improvement this year in face of a drop in sales. Ample coverage is indicated for $1.40 annual dividend rate, following a 2-for-1 split early this year. END

Sizing Up The Capabilities Of The Presidential Candidates

(Continued from page 406)

Services and Space Sciences Committees.

Up to this point, however, the Missourian has pitched his campaign primarily to criticism of the Administration's defense policies, especially in development of missiles and expansion of our Strategic Air Command. *In this he is treading territory dangerous to his own political fortunes. Fact is, our initial missile program was the Atlas, then under development by the Air Force, but discontinued when Symington was Secretary of the Air Force.*

On the labor front, Mr. Symington supported the Landrum-Griffin Labor Reform Bill, while in the area of farm affairs he has tended to endorse high price supports, but has lately come forward with his own farm program of doubtful value and yet to be put in form for Congressional consideration. His chances for nomination can be dismissed with a shrug of the shoulder, despite the fact that he may have considerable support in the early balloting.

The Republican Candidates

Turning to the Republicans, we have one avowed candidate and one "prospect" who has repeatedly withdrawn his name, at the same time "leaving the window open for a draft." Vice President Nixon is the openly declared seeker, while New York's Governor Nelson D. Rockefeller has a remote chance of being the draftee. Of the pair, Nixon seems to be well qualified, but one cannot ignore the eminent qualifications of Mr. Rockefeller.

The Vice President, at this moment, seems to have the rather solid support of the GOP "machine," but he is not exactly a "shoo-in." This is as true today as it was in 1940 when New York Governor Thomas E. Dewey went to the convention with almost solid machine backing only to be "band-waggoned out" by the late Wendell L. Willkie.

From the experience standpoint, Mr. Nixon goes to the convention with substantial assets. He is no newcomer to politics, having served two terms in the House of Representatives, a short span in the Senate and nearly eight years as Vice President.

As Vice President, Nixon has had the "inside track" on Administration policies, participated in the major White House "powwows" and served the President and his country well in the area of foreign relations, traveling to many foreign nations and meeting personally with fifteen heads of foreign states — seven of them in the privacy of his own home in Washington. Actually, his grasp of national and international affairs probably exceeds that of any other candidate.

On the domestic front he has traveled the conservative side of the street, always siding with the Administration when his vote as Vice President was needed to break a tie. His loyalty to "the boss" cannot be questioned. But that loyalty was not merely a Party loyalty — it was born of honest conviction that the Administration was correct.

Clouding the Nixon picture somewhat is his statement that his policies, to be stated *only if nominated,* may vary from those of the present Administration. Thus, far, he has consistently refused to elaborate, despite an open challenge from Governor Rockefeller, his only potential rival for the White House.

Like his potential Democratic rival Kennedy, Nixon can be placed in the youthful category (he will be only 47 years old next January, on the youngish side for the biggest job in the world) but on his youthful shoulders he will carry experience that no other candidate — GOP or Democrat — can boast. It is regretted, however, that he has ignored the Rockefeller challenge to state his position on national and international questions before convention time.

Nelson D. Rockefeller

Last on the alphabetical list is Governor Nelson D. Rockefeller, a political newcomer who has demonstrated marked abilities as a public executive. His short tenure of office as Governor of the Empire State has shown him to be a man of great ability, one with a firm grasp of public feelings on such matters as taxation, yet with the courage to hike taxes where such hikes can work to the general welfare, regardless of politics.

Although a man of great wealth, Rockefeller is no pampered rich man's son. He has worked with dilligence at everything he has undertaken, including the complex job he now holds. He has demonstrated a firm grasp of problems of the man in the street as well as those of business and legislation. His knowledge of farm affairs is not too broad, but he has the mentality to grasp them quickly — just as he quickly learned the intricacies of the New York governorship.

His foreign travels in official capacity have not been as extensive as those of Messrs. Nixon and Stevenson, but he has traveled both in Europe and Latin America and, as the owner of an extensive estate in Venezuela, he has good knowledge of Latin thinking and some of the problems confronting us in the southern half of the western hemisphere. But as a result of the work of the Rockefeller Foundation he has developed an understanding of foreign people and governments, a broad grasp of world affairs, and the family's benefactions have been highly respected because they have been made for the benefit of mankind everywhere.

Impeccably honest in all things, Mr. Rockefeller would bring to the White House a decided penchant for integrity in Federal affairs. Further, he would see that those under him adhered to his own high standard that "public office is a public trust."

And last, but not least, one should not discount the fact that Mr. Rockefeller has available to him some of the sharpest and keenest minds in the country, and in the world too, that can be of *the greatest assistance to him as President in these crucial times.*

It would seem that Mr. Rockefeller's prospects of a "draft" were greatly lessened by his recent criticisms of the Administration, its handling of defense and its excursions into personal diplomacy. To the Party professionals, a slap at the Administration is tantamount to disloyalty to the Party. You can discount recent sporadic moves in parts of the country to draft him as the Democratic nominee. It, however, does speak of his great popularity and makes him a strong challenger for the Presidency at the Republican Convention.

The foregoing thumbnail summaries are based on an objective analysis of the candidates and the issues as seen from the marbled mazes of the Nation's Capital. But we want to reiterate that in this momentous year selecting the right man for the office of President is a matter of great responsibility. We must each of us remember that our future depends on the right decision, and that we cannot permit ourselves to be swayed by personal politics or emotion. *We must set our house in order to survive as a great nation. It calls for financial acumen, for economic organization, and for political skill in order to accomplish our purpose. It calls for the right Leader.* END

What's Behind The New Wave Of Mergers — And The Companies Involved?

(Continued from page 413)

into one new corporation.

The points of difference between purchase and sale of assets and merger or consolidation are outlined briefly following:

1. A sale of assets is basically contractual, whereas a merger or consolidation is strictly statutory, although in some states sales of assets are also governed by statutes.

2. In a sale of assets, transfer of title is effected by deed or bill of sale; in a merger or consolidation, title passes by execution of the merger or consolidation agreement.

3. In a sale of assets, the liabilities of the seller are ordinarily not assumed by the purchaser; whereas in a merger or consolidation the liabilities of the merged or consolidated companies are automatically assumed by the survivor or consolidated company.

The question of taxes, especially Federal income taxes is often the governing one in determining the most feasible method of combination. If a ruling can be obtained permitting a tax-free exchange of stock, the merger or consolidation route may be most desirable. If such a ruling is not forthcoming, the purchase of assets may be most advantageous. In the cases of recent mergers, it appears that the purchase of assets has predominated. This may be due to the fact that a large number of small companies were acquired by larger enterprises. However, there seems to be evidence to indicate that the tax effects of a purchase of assets are more favorable than those of mergers or consolidation. Thus the tendency is to adopt the purchase of assets method of combination.

Among the recent cash purchases have been the acquisition of Wise Shoe Stores by Genesco Inc.; the acquisition of Allison Lumber Company Inc. by American Can Company; the purchase of the properties of Ander Chemical Company by Columbian Carbon; and the payment of cash of all of the stock of Sealzit Corporation by Flintkote Company.

Among the acquisitions for stock were the Gardner-Denver Company's exchange of shares for Apex Machine Tool stock; the acquisition of stock of Canadian Laboratory Supplies Ltd. by American Hospital Supply Corporation; and also the acquisition by the latter of all the common shares of Arnar-Stone Laboratories Inc. The Hunt Foods-Wesson Oil & Snowdrift merger also was effected by an exchange of stock.

A tax-free exchange of shares has particular appeal where holders of the stock of the acquired company wish to retain their investment in the combined organization but do not want to incur liabilities for capital gains tax payments.

In the case of large company acquisitions, the exchange of stock method is often better adapted to the circumstances because it avoids the expense of

raising large amounts of cash, and may make effective use of a good market value for the acquiring Company's stock.

The purchase of assets for cash may be better adapted to the purchase of a smaller company's business by a large company. This would be especially applicable if the selling stockholders do not wish to continue to have an investment in the combined enterprise but want to liquidate their holdings. The purchase of assets may permit the buying company to receive certain tax advantages by depreciation of the assets and utilization of the depreciation accruals as a tax deduction.

Anti-Trust Action

It has been pointed out that competitive pressures represent an important contributing factor in the merger movement. However, insofar as combinations result in a lessening or diminution of competition, they may be subject to scrutiny by the Anti-Trust Division of the Department of Justice. In recent years several proposed mergers have been prevented by objections on the part of the Department of Justice. Notable among these cases were the proposed Youngstown-Bethlehem Steel and the Superior-Texaco mergers which were halted by Government opposition. Two important acquisitions which took place in past years but which are currently being contested in anti-trust suits by the Justice Department are:

1. **The Gamble-Skogmo Inc.** acquisition in 1958 of 40.8% of the outstanding stock of Western Auto Supply Company. The Justice Department contends that Gamble-Skogmo's holdings in Western Auto Supply "threaten to eliminate Western Auto and its retail stores as competition of Gamble-Skogmo." A suit to break up the relationship was initiated in April 1960. Recent reports indicate that Gamble-Skogmo may sell its Western Auto stock to Beneficial Finance Co.

2. The acquisition of **Hazel-Atlas Glass Company** by **Continental Can Company** in September 1956. The Justice Department is seeking to show that this acquisition violates Section 7 of the Clayton Anti-Trust Act. This section, as amended in 1950, aims to prevent mergers which substantially lessen competition or tend to create a monopoly. The Justice Department says that their basic position is that the metal cans made by Continental Can Company are in competition with the glass containers made by Hazel-Atlas.

The activity of the Anti-Trust section of the Justice Department has increased as the number of mergers or proposed mergers has risen in number. While anti-trust actions or the possibility of such actions undoubtedly exert a braking force on the merger movement, the flood of merger announcements continues with relatively little abatement. It would seem that the combinations of larger companies in the same business may be expected to attract somewhat greater attention from the Justice Department than do the combinations of the smaller companies with one another.

The Justice Department may be expected to continue to oppose mergers or other forms of business combination where there is the possibility that competition will be lessened. Recently enacted legislation gives the Department of Justice certain powers of review over bank merger proposals. This legislation, which has the effect of at least delaying some bank mergers, may be an indication of a trend toward requests for similar legislation covering mergers of other types of corporations. Whether this proves to be the case or not, the victory of the Anti-Trust section of the Department of Justice in halting the Youngstown-Bethlehem Steel and the Superior Oil - Texaco mergers lends encouragement to those who oppose mergers on grounds that they constitute potential monopolistic dangers.

One of the dangers of a merger wave is that the combinations will take place under inflated conditions, so that excessive prices will be paid by the acquiring companies. When this has happened it has been followed by some unfortunate consequences resulting from over-issuance of securities by the acquiring company.

The present wave of mergers is taking place under active but not boom general business conditions. Thus, while in many cases, premiums are being paid for the securities or assets of the acquired companies, the premiums do not appear to be unduly high. This should mean that the capital structures of the acquiring companies are not being inflated out of proportion to such companies' ability to support.

In Conclusion

In spite of the frequently voiced opposition of many foes of bigness to mergers of all types, there are several arguments in support of mergers as constructive forces in the nation's economy. The advantages of size and diversification have been achieved more rapidly by many corporations through the merger route than would have been possible by any other means. Many of the nation's major corporations such as General Motors Corporation, United States Steel Company and General Electric Corporation owe their existence or the greatest part of their expansion to the many mergers which have taken place during their corporate history.

Whatever the future holds with respect to the level of business conditions, it is a certainty that mergers will continue to be effected. Small companies will join forces to increase their strength and large companies will acquire smaller ones to facilitate their expansion. So long as the mergers are effected without inflation in the prices paid (either in cash or in stock) for the acquired companies and so long as competition is not materially reduced, the over-all effects of business combinations are beneficial. By elimination of duplication and by more intensive utilization of machinery and manpower, the efficiency of the combined business should be greater than that of either of the combining companies. In the long run consumers should benefit from this improvement in efficiency. END

As I See It!

(Continued from page 401)

a move, however, would commit the Germans to maintain the rate for sometime, as revaluations are not made every day. Monetary management is understandably reluctant to make such decisions at this time due to possible emer-

gence of unforeseen outside factors.

More likely, but still not probable, as seen from this vantage point, is a widening of the spread of the official trading limits for the Mark, now 4.17 to 4.23 per dollar. Here again, although not as drastic a move as an out-and-out revaluation, it would disturb foreign exchange markets—which have been extremely stable for quite sometime now—and anticipations of a full revision of the Mark exchange rate would remain.

() Dr. H. J. Abs, the internationally known German banker, and Dr. Erhard have both suggested the likely direction to be taken. This involves an ***increase in government capital exports to underdeveloped countries,*** perhaps involving an increase in taxation. Such a solution would help reduce the aid burden of other European countries with less favorable balance of trade positions, cut down somewhat on internal purchasing power available, and reduce the balance of payments surplus. ***The main drawback to the move, however, is the proverbial problem of a time-lag, which could allow the domestic boom to go on unchecked, despite the new measures.***

In Conclusion

Germany and the Mark are undoubtedly suffering from an embarrassment of riches, an enviable although disquieting position. Whether or not any of the possible actions enumerated above would cause a basic longer-run change in the position of the Mark vis-a-vis other currencies remains questionable. However, some interesting fiscal-monetary combinations will most probably be tested and assessed in the months to come. END

Where Wage Hikes Will Squeeze Or Undermine Profit Margins

(Continued from page 410)

the absence of that, however, a new round of wage increases for **Caterpillar** will undoubtedly keep the company at its below par performance level for some time to come.

Continued Wage Inflation

From the foregoing it is apparent that despite the existence of excess capacity throughout the economy and the many other forces that are potentially deflationary, there will be no abatement of the upward labor cost spiral. In a few instances, such as **Armour & Co.,** and the major oil refining companies, where labor costs are not significant, the problem is not too great. But for most of our major industries the constant upward pressure of wages poses problems that must lead to lower profit margins in the future.

Of perhaps greater importance, however, is the realization that as demand catches up with capacity in a number of key industries, today's upward push on costs will lead to tomorrow's upward price spiral. Many companies cannot raise prices today because their industries are so overloaded with capacity that prices are under constant pressure. But a large number of industries, notably paper, building materials, some metals and several machinery groups are gradually, but decisively growing into their existing capacity. By late 1961, or early 1962 at the latest, there will no longer be excess capacity in these industries at which point prices will begin to rise to offset the rising labor costs. Then once again the consumer will begin to pay the labor bill.

Fortunately the day of reckoning is still far off in other industries. New capacity through modernization is being built in many basic groups, as can be seen from the latest projections of capital spending for 1960 and 1961. While this expansion is going on the companies will have to foot the additional labor costs at the expense of profit margins. Eventually, however, unless the vicious spiral drives us into a protracted recession, the consumer will pay the bill. As investors, however, the tab is paid twice. First in reduced dividend payments at the expense of labor costs—and then in higher prices in his role as a consumer. END

For Profit and Income

(Continued from page 431)

dicated by superior first-quarter gains, seems likely to increase it further this year. Up for the seventh consecutive year, earnings could reach the vicinity of \$5.10-\$5.20 a share, against 1959's strongly-improved \$4.45. Another dividend boost is likely, making it six years in a row. The new rate should be at least \$2.40 and might be \$2.60. The stock remains a good long-term holding.

Corn Products

When informed people get dubious about market and business prospects, Corn Products is one of the outstanding "defensive" stocks to which they turn. Actually, it offers moderate-rate growth, as well as much above average stability under unfavorable general conditions. Aided by lower corn costs, earnings either increased or held up in each of the last four business recessions. Especially since merger of Best Foods, the company's food product line is broad. A feature is important and growing profits on foreign operations, tending further to insulate the company from domestic business recessions. Earnings this year could reach a record \$3.50 or so a share, up from 1959's \$3.04. The \$2.00 dividend rate, up from \$1.75 in 1958 and \$1.50 in 1957, was recently raised to \$2.20. At 57, with yield a little under 3.9%, the stock is not cheap, but is a sound choice for conservative, defensive-minded investment.

Toned Down

In industry after industry, we note that management's earlier projections of possible 1960 profits are being scaled down right and left. The various factors involved include "slow" sales, price concessions, keener domestic competition, the inroads of cheaper imports in some cases, and narrower margins. Some of the lines involved are aluminum, auto parts, auto trucks, sections of the building materials field, flat glass, coal, heavy electric equipment, appliances, machinery, oil, metal fabricating, paper, rails and rail equipment, and steel. END

Answers to Inquiries

(Continued from page 437)

earnings.

Shipments by Dresser's machinery group are expected to be a good deal higher in the second half of the current fiscal year, than in the first 6 months. Incoming new orders have recently begun to increase, which tend to reflect the widely held belief that capital expenditures by manufacturing companies in 1960 will reach very substantial proportions. The increase also reflects record expenditures by the natural gas industry which accounts for about 25% of Dresser's sales.

In view of he fact that the adverse situation in the recent past has already been reflected in the market price of the stock and as the longer term outlook appears favorable, we recommend retention.

Daystrom, Inc.

"I would appreciate receiving late data on Daystrom, Inc. indicating recent sales trend and also please give me a breakdown of sales in its principal categories."

S. T., Boston, Mass.

Daystrom, Inc. has radically changed the nature of its business in the past 16 years. Originally, its corporate title was American Type Founders but it has divested itself of its graphic arts business and is concentrating on electronics.

Of Daystrom's total volume for fiscal 1960, industrial sales amounted to $26,900,000, defense sales $33,647,000, and consumer sales $30,062,000. Research and development expenditures, including contract research, reached a new high of $7,054,000 compared to $6,592,000 in fiscal 1959.

Earnings for the fiscal year ended March 31, 1960 rose sharply to $2,271,000, or $2.48 a share. This contrasted with the previous year's earnings of $1,-207,000, equal to $1.32 a share. The figure for fiscal 1959 was before a special inventory write-off equal to 70 cents a share.

Sales of $90,609,000 for the latest fiscal year were the highest in the company's history, compared with $76,640,000 in fiscal 1959.

During the past fiscal year, the company advanced its computer control and defense systems, and also improved its position as a supplier of basic instruments, systems, subsystems and components used by all segments of the nation's economy. The company's diversified position was well balanced with approximately one-third of sales being in each of the industrial, military and consumer markets.

Fiscal 1960 saw the fruition of some of the company's long range plans for new products, new markets, new manufacturing techniques and for new and increased research capabilities.

Daystrom recently voted to redeem the company's 4¾% convertible subordinate debentures due 1977. The issue is redeemable at 104.375, plus accrued interest, on July 14, 1960, at First National City Trust Co., New York. Until July 8, the debentures are convertible into common stock in the ratio of 30 common shares for each $1000 of debentures. Of the total of $8 million in debentures issued by the company in 1957, $7,774,000 are outstanding.

Current quarterly dividend is 30 cents per share. Prospects over coming months appear favorable.

Dayco Corporation

"Enclosed is my subscription for one year. Please give me your opinion of Dayco Corp."

C. J., Canton, Ohio

Dayco Corp. formerly until April 1, 1960. Dayton Rubber Co. is a rubber fabricator, makes tires for the replacement and fleet markets, also manufactures a broad line of mechanical rubber goods, foam rubber, polyurethane and recently has specialized in items for the aircraft and missile fields.

Net sales of Dayco Corp. for the 6 months ended April 30. 1960, the first half of the fiscal year amounted to $47.446.958, an increase of 9.7% from the corresponding period last year, when sales were $43,268,926.

Earnings for the period, including the company's share of undistributed profits, less applicable taxes if distributed, of Copolymer Rubber & Chemical Corp., amounted to $764,869, or 60 cents per share on an average of 1,191,384 shares of common stock outstanding. In the corresponding period last year, profits amounted to $1,199,983 or $1.04 per share based on a smaller average of 1,112,171 shares outstanding.

Excluding Dayco's share of the undistributed profits of Copolymer Rubber & Chemical Corp., net profits for the first fiscal 6 months amounted to $586,292, equal to 45 cents per share. This compared to $1,008,036, equal to 87 cents per share on an average of 1,112,171 shares outstanding for the corresponding period of last year.

The company announced on May 1, 1960, the acquisition of the assets of Metal Hose & Tubing Co., Dover, N. J., whose earnings were not included in the 6 months figures. Metal Hose is a leading manufacturer of steel and fibre reinforced rubber hose sold under the trade name, "National", principally for use in gasoline pumps for service stations, fueling of aircraft, and other petroleum and chemical service applications.

According to the president of the company, factors contributing to the lower earnings for the first 6 months of the fiscal year were more competitive conditions, a 27 day strike at the Dayton Tire plant and a longer labor training period than anticipated at the new Springfield, Missouri V-Belt plant.

According to the president of the company, "the business normally reaches its peak during the latter part of the year. In addition, the efficiency of Dayco's diversified plants, particularly at Springfield, Missouri, is steadily improving. Therefore, given a reasonably satisfactory national economy, indications are a new annual sales record will be established, and earnings should have a more favorable effect on profit margins during the balance of the year."

The regular quarterly dividend of 50 cents per share on the class "A" preference stock and 35 cents per share on the common stock was declared payable July 25. This is the 85th consecutive dividend on the common stock.

While the stock must be regarded as speculative, in view of favorable prospects over coming months, we recommend retention.

END

Book Reviews

Survey Of Oils 1960

With record reserves proven and the go-ahead signal given to a big drive for large U.S. markets, Canada's oil and gas industry is entering a new phase of growth.

It is estimated that growth of gas business over the next three to five years could require anywhere from $500 million to $800 million of expansion, says the 1960 edition of FP's Survey of Oils.

This basic reference book on oil and gas in Canada comments that the industry has passed through the embryo stage of finding large sources of supply.

The problem of lining up large long-term market growth is being tackled vigorously.

The 248-page survey reports on thousands of companies, includes balance sheets, directors, property holdings and other information useful as reference.

Financial Post
Toronto, Canada. $4.00

Alaska in Transition

By GEORGE W. ROGERS

In recent years, Alaska has undergone a dramatic change in all levels of its society and economy. Statehood and the rapid pace of the twentieth century have kept this area in constant transition. In this book, published for *Resources for the Future, Inc.*, the author examines the resource economies and politics of Southeast Alaska. The transition from a predominantly marine resource base to a forest product base that is now under way is causing multiple changes in industrial organization and location community development objectives.

The political transition has also had a marked efect upon the life in this region. Statehood has brought a shift in the control of natural resources and management policy, adding further variations to the economic and industrial transition already taking place. The people of Alaska face a simultaneous rapid decline of old, and an expansion of new, forms of employment calling for vastly different skills and different ways of life.

The Johns Hopkins Press $7.00

Vice President in Charge of Revolution

By MURRAY D. LINCOLN
as told to David Karp

This is the story of a man, an idea, and an ideal. Murray D Lincoln is an American business executive who proposes a new declaration of economic independence. As president of Nationwide Insurance, he directs an organization with assets of more than $350,000,000. Yet Nationwide is no ordinary corporation, any more than Murray Lincoln is an ordinary man. The difference lies in the unorthodox idea that Nationwide embodies, the idea that Murray Lincoln has fought for and served more than forty years. The idea: People have a right, and ought to have the means, to control their own money and their own economic institutions.

Murray Lincoln was raised on a Massachusetts farm and became New England's first county agricultural agent. Soon after taking the job he discovered cooperatives as the most practical, the most democratic, and to him the most natural, way to increase the farmer's income. He also discovered that he couldn't fight for cooperatives without inviting controversy. And as his concept of cooperation grew to embrace the city dweller as well as the farmer, the consumer as well as the producer, the attacks came from all sides: from banks, from big business, from government, even from within the cooperative movement itself.

"We ought to treat democracy as a fresh, sharp working tool and start digging into our own economy with it . . . we ought to pass the tool to people about the world, showing them how to use it."

Throughout his career — as executive secretary of the Ohio Farm Bureau, as president of CARE, as president of The Cooperative League of the USA, as president of some fifteen different business enterprises — Murray Lincoln has always insisted that democracy must be economic as well as political. *Vice President in Charge of Revolution* is the record of this uncommon man's education in business and in human relations, and of his discovery that the best rewards come to those who are, as the Nationwide companies' slogan reads, "In service *with* people."

lively and fascinating account of his historic interview with the Soviet leader throws an important light on international affairs.

McGraw-Hill $4.95

The Laugh's On Me

By BENNET CERF

The name of Bennett Cerf is synonymous with sparkling wit. Once again he has collected the best of today's humor in a lively, entertaining book —a book filled with hearty, hilarious reading—a handy reference for speakers, toastmasters and anyone else who needs a good story to tell.

Here are 2,000 anecdotes told in the inimitable Cerf style and conveniently arranged in 100 different categories as diversified as the battle of the sexes and hillbillies, or Hollywood and railroads.

This is a book as gay and refreshing as spring—warm and glowing as a winter fireplace. THE LAUGH IS ON ME will find a permanent, year-round place on every reader's bookshelf.

Doubleday $3.95

The Soviet Bloc

By ZBIGNIEW K. BRZEZINSKI

This is the first full-length study of relations among the Communist states. The study investigates the implications of the status of Yugoslavia and China, the significance of the Hungarian revolution, and the special features of the Polish position in the bloc, and clarifies the Khrushchev-Gomulka clash of 1956 and the complex role of Tito. The author places special emphasis on the role of ideology and power in the relations among the Communist states, contrasting bloc relations and the unifying role of Soviet power under Stalin with the present situation. Analyzing Khrushchev's emphasis on ideological and economic ties, he suggests that conflicts of interest among the ruling elites will either result in ideological disputes or in the weakening of the central core of the ideology, thereby prompting a gradual decline of unity among the Communist states.

Zbigniew K. Brzezinski teaches in the Department of Government and is an Associate of the Russian Research Center and of the Center for International Affairs at Harvard University.

Harvard University Press $7.75

The Revolt in Tibet

By FRANK MORAES

India's leading analyst of world affairs, Frank Moraes, is unusually qualified to tell the story of the revolt in Tibet.

Opening with a detailed account of the Dalai Lama's flight from Lhasa, Mr. Moraes presents a brilliant analysis of contemporary Tibet's role in the relations between India and Communist China. He carefully documents the aims and background of Communist China's aggression in Tibet and tells of the invasion which actually began in 1950.

In a devastating critique of Chinese Communist activities in Tibet he describes the economic exploitation and religious and social repression of the Tibetans, the revolt of the Khamba tribesmen, and the actual Chinese takeover in 1959.

Here also is the full story of India's involvement in the "17 point agreement" forced on Tibet in 1951, and the famous, now moribund, agreement of 1954 between China and India whose preamble enunciated the "five principles of coexistence," known in India as *Panchshila*. Mr. Moraes does not hesitate to point out what he considers to have been the "errors" and responsibility of India.

As definitive as a piece of contemporary history can be, this perceptive analysis of Tibet in the modern world describes the impact of the tragedy of Tibet throughout the East. The book ends with a postscript—the report of an interview accorded Mr. Moraes by the Dalai Lama.

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